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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

ON

H.R. 2698

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 1992, AND FOR OTHER PURPOSES

PART 1 (Pages 1-888)

Commodity Futures Trading Commission
Department of Agriculture
Farm Credit Administration
Farm Credit System Assistance Board
Food and Drug Administration

Printed for the use of the Committee on Appropriations

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

MONDAY, MARCH 4, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Harkin, Adams, Kerrey, Cochran, Kasten, and Bond.

DEPARTMENT OF AGRICULTURE

STATEMENT OF CHARLES E. HESS, ASSISTANT SECRETARY FOR SCIENCE AND EDUCATION

ACCOMPANIED BY:
HARRY C. MUSSMAN, DEPUTY ASSISTANT SECRETARY, SCIENCE AND EDUCATION
DENNIS KAPLAN, BUDGET OFFICE

AGRICULTURAL RESEARCH SERVICE

STATEMENT OF R. DEAN PLOWMAN, ADMINISTRATOR

COOPERATIVE STATE RESEARCH SERVICE

STATEMENT OF JOHN PATRICK JORDAN, ADMINISTRATOR

EXTENSION SERVICE

STATEMENT OF MYRON D. JOHNSRUD, ADMINISTRATOR

INTRODUCTION OF WITNESSES

Senator BURDICK. Good afternoon, ladies and gentlemen. Today we begin our hearings on the fiscal year 1992 budget for agriculture, rural development, and related agencies. We will review the budgets for the Agricultural Research Service, the Cooperative State Research Service, and the Extension Service.

Our witnesses are as follows: Charles E. Hess, Assistant Secretary for Science and Education; Harry C. Mussman, Deputy Assistant Secretary for Science and Education; R. Dean Plowman, Administrator, Agricultural Research Service; John Patrick Jordan, Administrator, Cooperative State Research Service; Myron D. Johnsrud, Administrator, Extension Service; and Dennis Kaplan, Budget Officer, USDA.

Welcome to you all.

As a broad overview in comparison to the 1991 funding, I note that the budget for ARS is increased by over $44 million, including an increase of $5 million for buildings and facilities; the budget for CSRS is reduced by $4 million in program funds and by $38 million in buildings and facilities; and the Extension Service budget is increased by $12.3 million.

Dr. Hess, I will ask you to make your oral statement, after which we will entertain questions from the subcommittee for each of the agencies.

Dr. Hess.

REMARKS OF DR. HESS

Dr. HESS. Thank you, Mr. Chairman and members of the subcommittee. I am pleased to have this opportunity to present an overview of our 1992 budget and program proposals for research, higher education, and extension. I would like to take just a few moments to give some highlights of our proposal in the overall context of the budget.

INVESTING IN THE FUTURE

American farmers are among the most productive in the world, and yet high productivity has not always meant profitability or sustainability. Heightened public awareness and a renewed interest in the environment is bringing a whole new set of issues to be addressed by producers. There is increasing competition from producers abroad, and world markets continue to demand higher quality products.

Members of this subcommittee certainly recognize the complex nature of the challenges facing producers, and the long-term development of technology will provide the answers to keep American producers competitive in world markets and satisfy consumer and public demands for safe food and clean environment at home.

We approach these challenges at a very exciting time in the biological sciences. A revolution in technology is providing new opportunities to address the many problems facing agriculture.

STRENGTHENING THE RESEARCH PARTNERSHIP

My confidence in the ability to meet these challenges is rooted in the outstanding talent residing in the Federal research labs and our partners at the land-grant universities, including the 1890 institutions. We place a high priority on maintaining support through the basic formula grant programs such as Hatch and McIntire-Stennis as a means to ensure the ongoing capability of the university system to develop quality programs.

NATIONAL RESEARCH INITIATIVE

Mr. Chairman, we believe our farmers and ranchers deserve only the best in new solutions to costly, pervasive problems. Strengthening the historic USDA-land-grant partnership is a first step to ensure the availability of high-quality science. It is crucial, then, to engage that talent along with talented individuals throughout the

Nation in seeking solutions to critical problems through support for the most highly meritorious scientific proposals.

Given the support of Congress in 1991 with appropriations of $73 million for the National Research Initiative, we are proposing an increase of $52 million consistent with our commitment outlined last year to increase the NRI if funds are provided for competitive award. The increased funds will enable us to fund all six program areas presented in the NRI, including the new areas of agricultural commodities—new uses for agricultural commodities, new products, and also for research in the area of markets, trade, and policy.

UNIVERSITY RESEARCH FACILITIES

Members of this committee are aware of the intense interest in research facilities in recent years. Certainly there are proposals for facilities far in excess of our ability to fund them. At the same time, we recognize that universities have legitimate facility needs that are becoming more acute with the implementation of the National Research Initiative. Given the universe of proposed facilities and the much lower amount of Federal funding reasonably available for that purpose, we are fully committed to directing resources to the highest priority projects.

Mr. Chairman, I am pleased to present our proposal for a university facility program requested in conjunction with the National Research Initiative. Our 1992 request of $25 million represents a facility program equal to one-fifth of the proposal for research funds under the National Research Initiative.

Consistent with our commitment to increase NRI funding, we are also proposing future increases for the facility program to maintain it at a level equal to 20 percent of the NRI funding level.

AGRICULTURAL RESEARCH SERVICE

Programs of the Agricultural Research Service represent an important part of our overall research strategy. ARS research initiatives proposed for 1992 reflect the needs of the agricultural and food sector and are closely related to departmentwide programs, including water quality, food safety, and global change.

We are now in the second year of funding for the President's water quality initiative, and we are pleased with the progress thus far. New research programs are beginning to provide answers, but much work remains to be done. The proposed work, like ongoing programs, is fully coordinated with research underway and proposed for the university system. The Department is proposing an expanded food safety program to be conducted primarily through marketing and inspection agencies.

ARS will be pursuing a range of avenues to improve food safety starting at the producer level and carrying through to support for regulatory programs. Projects will focus on means to eliminate potential food and safety hazards in the production of animal and plant food products and to develop improved rapid analytical tests to detect pesticides, microbiological and drug residues in food products.

Mr. Chairman, we see promising opportunities for agriculture to play an increasing role in helping the Nation deal with pressing en-

vironmental issues while at the same time enhancing producer profitability. Development of agricultural products as a renewable source of energy represents a means to improve producer profits and to reduce our reliance on imported fossil fuel energy sources. We are carefully coordinating these research activities with the Department of Energy.

ARS FACILITIES MODERNIZATION

I would like to highlight for the committee the ARS proposals for facility replacement and modernization. ARS has been systematically reviewing facilities, assessing needs, and establishing priorities for improvements. Funds are proposed in 1992 for projects at seven facilities, including $20 million to continue modernization at Beltsville and $6 million to begin a major modernization of the Plum Island Animal Disease Research Facility.

EDUCATING FUTURE AGRICULTURE LEADERS AND SCIENTISTS

As I noted earlier, I place great confidence in the abilities of the scientists in the USDA land-grant partnership. It is imperative that we attract bright minds into the agriculture and related sciences. With the support of this committee, we have three major higher education programs under way: A graduate fellowships program; a program to enhance the capacity of 1890 universities to attract, train, and graduate high-quality individuals in the agriculture and related sciences; and a competitive challenge grants program which was launched in 1990 as a means to modernize curricula and teaching capabilities in the food and agricultural sciences. We have proposed funds to continue these programs in 1992.

APPLYING RESEARCH KNOWLEDGE

The real benefits of our research programs are realized only after the information has been packaged and delivered to producers, processors, and others in the food and agricultural system who can implement it in everyday operations.

Extension has a long tradition of excellence in education and technology transfer. We are convinced that the System has responded with renewed vigor in recent years to significant challenges that have been presented to it. Our confidence in the ability of the Extension System to deliver is reflected in the budget proposals for 1992. We recognize the need to strengthen support for the core Extension programs, including the Smith-Lever formula and 1890's formula funds.

Like the research programs, the agenda for Extension reflects concerns over the environmental costs of farming, the safety of food products, programs for water quality, and integrated pest management. These programs receive increases under our proposals.

EXTENSION YOUTH PROGRAMS

I would like just a moment to update the committee on the Extension's Youth-at-Risk initiative just getting underway with your support. In a word, the reception has been overwhelming. Over 119 proposals valued at $14 million were received for the $7.5 million

available. Sixty-nine proposals have been funded, and they have provided over $17 million in matching State funds. Mr. Chairman, clearly this is a program that is fulfilling a need unmet in our communities.

I am also pleased to note that the W.K. Kellogg Foundation has provided $5.9 million in grants in conjunction with the Federal programs. I urge the committee to support continued development of this vital Youth-at-Risk Program.

AGRICULTURAL INFORMATION

Rapid access to information in previous research findings is vital to scientific progress and the transfer of technology to users. We are proud of the service provided by the National Agricultural Library to researchers, policymakers, and the general public. Development of an electronic network with land-grant universities is viewed as a vital part of the library's future, given rapidly increasing costs of acquiring, storing, and preserving large collections of printed materials.

With the support of this committee, the National Agricultural Library has pursued the development of such a network. I strongly support this effort, and we are proposing additional funds for 1992 for continued work and expansion as well as funds for the renovation of existing facilities at the National Agricultural Library.

In closing, I would like to affirm our desire to work with the committee as the 1992 budget is considered. I especially would like to extend our interest in providing background materials to the members of the committee as they consider in detail our proposal.

Thank you very much, Mr. Chairman.

PREPARED STATEMENTS

Senator BURDICK. Thank you, Dr. Hess. We have statements from each of the agencies and the Assistant Secretary. They will be made part of the record in full.

[The statements follow:]

STATEMENT OF DR. CHARLES E. HESS

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to provide an overview of our 1992 budget and program proposals for research, higher education and extension programs. In total, we are proposing $1.5 billion, an increase of $45 million above the 1991 funding level. In addition, we are proposing $71 million for Federal and university research facility construction. I would like to take just a few minutes to summarize the highlights of our proposals and the overall context of this budget.

INVESTING IN THE FUTURE

American farmers are among the most productive in the world, yet high productivity has not always meant profitability or sustainability. Agricultural producers have traditionally faced challenges to economic viability from a host of natural forces and have relied on improved technology to meet those challenges. Now, heightened public awareness and a renewed interest in environmental issues is bringing a whole new set of issues to be addressed by producers. No longer can farmers expect to have at their disposal the range of chemicals used for decades in the control of insects, weeds and other pests. Predicted changes in global climate patterns offer the prospect of new growing conditions. There is increasing competition from producers abroad and world markets continue to demand higher quality products.

Members of the subcommittee certainly recognize the complex nature of the challenges facing producers. In the long term, technology will provide the answers to keep American producers competitive in the world market and satisfy consumer and public demands for safe food and a clean environment at home. We approach these challenges at an exciting time in the biological sciences. A revolution in technology is providing new opportunities to address problems in biological systems with powerful new tools and approaches. Our ability to capture the benefits for farm producers relies on the further refinement and application of these technologies. It will be a long-term process. It will be an expensive process. But the cost of not moving confidently ahead will be measured in lost competitiveness, unnecessary environmental damage, and an impaired ability to address future impediments as they arise.

STRENGTHENING THE RESEARCH PARTNERSHIP

My confidence in our ability to meet these challenges is rooted in the outstanding talent residing in our Federal research labs and our partners at the land-grant universities, including the 1890 institutions. Our success will come from supporting the core ability of these organizations to conduct quality research and from focusing resources on the most promising projects and programs. Our budget is a reflection of this need. We place a high priority on maintaining support through the basic formula grant programs as a means to ensure the ongoing capability of the university system to deliver quality research. These base programs will assure the continuation of programs of high importance to local and regional needs in the broader context of the National interest.

NATIONAL RESEARCH INITIATIVE

Mr. Chairman, we believe that our farmers and ranchers deserve only the best in new solutions to costly, pervasive problems. Strengthening the historic USDA-land-grant partnership is the first step to assuring the availability of high quality science. It is crucial then to engage that talent, along with talented individuals throughout the Nation, in seeking solutions to critical problems through support for the most highly meritorious scientific proposals. Given the support of Congress in 1991 with appropriations of $73 million for the National Research Initiative, we are proposing an increase of $52 million, consistent with our commitment outlined last year to increase the NRI if funds are provided for competitive award. Increased funds proposed for 1992 will allow us to expand into new fields of research in providing the basis for new uses for agricultural commodities and markets, trade and policy research. We will continue and expand ongoing programs, including an increase of $7 million for the plant genome mapping program. Dr. Jordan will be providing additional details and some examples of significant contributions of the competitive grants program to solving problems of interest to farmers.

UNIVERSITY RESEARCH FACILITIES

Members of the Committee are aware of the intense interest in research facilities in recent years. Certainly, there are proposals for facilities far in excess of our ability to fund them. At the same time, we recognize that universities have legitimate facility needs that are becoming more acute with the implementation of the National Research Initiative. Given the universe of proposed facilities, and the much lower amount of Federal funding reasonably available for that purpose, we are fully committed to directing resources to the highest priority projects. We also believe that a commitment of non-Federal funds equal to or greater than the Federal funding share is an absolute necessity for the success of any research facility program. Mr. Chairman, I am pleased to present our proposal for a university facility program, requested in conjunction with the National Research Initiative. Our 1992 request of $25 million represents a facility program equal to one-fifth of the proposal for research funds under the NRI. Consistent with our commitment to increase NRI funding, we also propose future increases for the facility program to maintain it at a level equal to one-fifth of the NRI funding level.

FEDERAL RESEARCH PROPOSALS

Programs of the Agricultural Research Service represent an important part of our overall research strategy. ARS is in a unique position to pursue continuing, long-term research programs of a national interest. ARS research initiatives proposed for 1992 reflect needs of the agricultural and food sector and are closely related to Departmentwide programs, including water quality, food safety and global change.

We are now into the second year of funding for the President's water quality initiative and we are pleased with progress thus far. New research programs are beginning to provide answers, but much work remains to be done. Consistent with the objectives of the USDA Research Plan for Water Quality, ARS is proposing additional resources to tackle unsolved issues. The proposed work, like the ongoing program, is fully coordinated with research underway and proposed for the university system. Dr. Plowman can provide additional details on the 1992 proposals.

The Department is proposing an expanded food safety program to be conducted primarily through the marketing and inspection agencies. Advances in technology will be an important factor in supporting the objectives of the program and we are proposing an increase for ARS in that field. ARS will be pursuing a range of avenues to improve food safety, starting at the producer level and carrying through to support for regulatory programs. Projects will focus on means to eliminate potential food safety hazards in the production of animal and plant food products and to develop improved rapid analytical tests to detect pesticide, microbiological and drug residues in food products.

Mr. Chairman, we see promising opportunities for agriculture to play an increasing role in helping the Nation deal with pressing environmental issues while at the same time enhancing producer profitability. Development of agricultural products as a renewable source of energy represents a means to improve producer profits and to reduce our reliance on imported fossil energy sources. Conversion of agricultural biomass into alcohol fuels is an area where advances in biological sciences provide new avenues to achieve a profitable solution. Additional research to improve the conversion process promises the development of new markets for agricultural commodities. We are carefully coordinating this research with the Department of Energy. ARS is also proposing a program of research to develop the use of gypsum wastes from power plant air pollution controls as an amendment for agricultural soils. Proposed funds will provide for the development of management systems which incorporate this product as a beneficial and economically attractive soil amendment.

ARS FACILITY MODERNIZATION

I would like to highlight for the Committee the ARS proposals for facility replacement and modernization. Mr. Chairman, over one-half of the ARS facility capacity was constructed prior to 1960. Advances in science, more stringent building and health codes and deterioration render this space, as well as some newer facilities obsolete. ARS has been systematically reviewing facilities, assessing needs and establishing priorities for improvements. Funds are proposed in 1992 for projects at seven facilities, including $20 million to continue modernization at Beltsville and $6 million to begin a major modernization of the Plum Island animal disease facility. ARS will be providing additional details on the specific projects. I urge the Committee to support this crucial modernization effort. Further, I would remind the members that we cannot begin construction until a project has been fully funded.

EDUCATING FUTURE AGRICULTURE LEADERS AND SCIENTISTS

As I noted earlier, I place great confidence in the abilities of the scientists in the USDA and land-grant partnership. Only with the talents of dedicated individuals can great accomplishments be made. It is imperative that we attract bright minds into the agricultural and related sciences. With the support of this Committee, we have three major higher education programs underway. Since 1984, the graduate fellowships program has supported almost 500 scholars in agriculture programs. With the success of this program in attracting exceptional individuals, we are proposing an increase for 1992. In 1990 we initiated a program to enhance the capacity of the 1890 institutions to attract, train and graduate high quality individuals in the agriculture and related sciences. The program is achieving great success in assisting these institutions in forming new partnerships and there has been a high level of success in attracting matching funds for the Federal grants. An increase is proposed, along with a requirement for matching, to expand this innovative program at the historically black land-grant institutions. We also initiated the competitive challenge grants program in 1990 as a means to provide funds to modernize the curricula and teaching capabilities in the food and agriculture sciences. We propose funds to continue this program in 1992.

APPLYING RESEARCH KNOWLEDGE

The real benefits of our research programs are realized only after the information has been packaged and delivered to producers, processors and others in the food and

agriculture system who can implement it in everyday operations. Extension has a long tradition of excellence in education and technology transfer and we are convinced that the system has responded with renewed vigor in recent years to significant challenges presented to it. The farm crisis of the 1980's, new farm and environmental legislation beginning to impact farm operations and public interest in the safety of foods are just a few of the major forces shaping the needs for Extension programs. A continuing re-examination of National priorities for Extension, with input from the broadest range of participants is resulting in dynamic programs responsive to the changing needs of the System's clientele.

Our confidence in the ability of the Extension system to deliver is reflected in proposals for the 1992 budget. We recognize the need to strengthen support for the core Extension programs, including the Smith-Lever formula and the 1890's formula. Building on the strengths of this base program, we are proposing to continue to focus additional Federal funds on high National priorities, identified by the Extension system and supported with non-Federal resources, as well.

Like the research programs, the agenda for Extension reflects concerns over the environmental costs of farming and the safety of food products. Programs for water quality, integrated pest management and food safety receive increases under our proposals. Expansion of these programs will allow the States to address a much wider set of concerns and participate fully in the water quality programs along with other USDA and other Federal agencies.

EXTENSION YOUTH PROGRAMS

I want to take just a moment to update the Committee on the Extension Youth-at-Risk initiative just getting underway with your support. In a word, the reception has been overwhelming. Mr. Chairman, clearly, this is a program that is filling a great unmet need in our communities. A conference held last September attracted over 700 participants from around the country, representing a range of organizations and interests, with the overall theme of developing effective programs to address the needs of youth at risk of failure from a variety of circumstances. We are well underway in the process of evaluating proposals for funds under the program, and I am pleased to note also that the Kellogg Foundation has provided a $5.9 million grant in conjunction with the Federal program. Our 1992 proposals would provide the resources to support projects started in 1991 and to initiate work at additional sites. I urge the Committee to support the continued development of this vital program.

AGRICULTURAL INFORMATION

Rapid access to information and previous research findings is vital to scientific progress and the transfer of that technology to users. We are proud of the service provided by the National Agricultural Library to researchers, policymakers and the general public. NAL continues to improve its services and seek out ways to reduce duplication of efforts with land-grant and other libraries. Development of a network is viewed as a vital part of the Library's future, given rapidly rising costs of acquiring, storing and preserving large collections of printed materials. With the support of this Committee, NAL has pursued the development of a network. I strongly support this effort, and we are proposing additional funds in 1992 for continued work and expansion of the network.

Like the facilities of our research agencies, NAL's building is aging and is in need of repair and improvement to continue to serve the Library's needs. Funds are proposed to begin repairs, including an overhaul of the elevator and booklift systems. NAL will provide additional details of needs and plans in this area.

CLOSING REMARKS

With input from our partners at the universities, users of research and other interested parties, we have identified a number of exciting opportunities to improve farm and ranch competitiveness through the development and application of improved technology. Our proposals reflect immediate needs and look well into the future by developing the fundamental scientific knowledge for future applications and training the next generation of agricultural professionals. In closing, I would like to affirm our desire to work with the Committee as the 1992 budget is considered. I would especially like to extend our interest in providing background information for the new members of the Committee as they consider in more detail our proposals.

STATEMENT OF DR. R. DEAN PLOWMAN

Mr. Chairman, and members of the Committee. I appreciate the opportunity to discuss our fiscal year 1992 budget proposals for the Agricultural Research Service. It is always a pleasure to appear before this Committee to discuss the many challenges and opportunities facing this Agency and the Nation. As the Department's in-house agricultural research agency, we've had another challenging and rewarding year. Being the world's largest problem-oriented agricultural institution, the Agricultural Research Service (ARS) is profoundly concerned with ensuring affordable, abundant, safe and quality food and fiber to our Nation's consumers while, at the same time, making sure that our farmers and ranchers remain competitive in both domestic and world markets. ARS is positioned well to meet these challenges. Our major centers and laboratories are strategically located throughout the country to serve broad regional, national, and international interests.

RESEARCH INTERACTION

In accomplishing our mission, we work closely with action and regulatory agencies of the Federal Government; we meet and work with producers and industry groups and we coordinate research efforts with State Agricultural Experiment Stations and other public and private institutions. Mr. Chairman, all of these activities contribute toward a research synergism unparalleled in the world.

Let me take this opportunity also, Mr. Chairman, to say that we work well with the Congress and particularly this Committee in an effort to improve upon the Nation's present agricultural capacity. This Committee has provided a steadfast and staunch support for a vital research program. Your understanding of the significance of agriculture to the Nation's well-being and the importance of solving the many complex problems confronting this country have helped to advance the sciences and technologies that have made American agriculture second to none. We appreciate your significant contributions to this end.

REGIONAL CENTERS

A key part of the ARS research system is the so-called Utilization Centers established in the four regions of the country which are charged with research to develop new products from farm commodities as well as develop new markets for those commodities. These four key laboratories—in Philadelphia, New Orleans, Peoria, and Albany, California—have, in fact, just celebrated their 50th anniversaries this past year. These Centers of excellence have improved the daily lives of every American and many millions more abroad. These are the Centers that have: Developed reliable and economical methods of producing penicillin; devised innovative technologies for expanded non-food uses of agricultural commodities such as biodegradable plastics and the production of ethanol; saved cotton as a viable crop through development of new techniques for processing cotton and cotton textiles; and improved the safety and convenience of traditional food products, including technology for freezing, drying, and otherwise preserving fruit, vegetables, meats, and a variety of other foods.

Mr. Chairman, things like that make us all feel good about what we do!

RECENT ACCOMPLISHMENTS

Recent accomplishments are also important. I refer the Committee to the selected examples of recent progress listed in this year's Explanatory Notes. These represent but a small fraction of our current research effort. For example, some of our recent accomplishments include:

—The development of a soil organic matter sensor to enhance the feasibility of precision herbicide applications resulting in a more efficient use of agricultural chemicals on the farm.

—An understanding of the substantial effects on plant growth of increasing concentrations of carbon dioxide in the atmosphere. This is pertinent to our prediction of future food security on our planet.

—Identification of severe strains of citrus tristeza virus, a major concern of the citrus industry, which have caused significant economic loss to growers in Florida and California. Our research is now focusing on breeding for resistance to these strains.

—Genetic markers to identify the genotype of beef cattle. By mapping cattle chromosomes, it is now possible to identify genes resistant to diseases.

—Gene probes for diagnosing animal diseases. Diagnostic gene probes have been developed for such diseases as swine dysentery, Johne's disease, and leptospirosis. These diseases are major causes of economic loss in the animal industry.
—Biocontrol alternatives to fumigation. This is important in responding to continuing domestic and foreign consumers' demand for alternative measures in the chemical treatment of fruits and vegetables. This research will open up new markets abroad.
—Edible film coating to prevent spoilage. ARS scientists have developed an inexpensive edible coating compound consisting of oils, cellulose, and an emulsifier to provide the desired gloss and shelf life extension of fruits and vegetables well beyond normal refrigerated temperatures. This research increases the potential of expanding both domestic and foreign markets.
—Magnesium-deficient diets affect cholesterol and heart rhythm in women. Our findings indicate that inadequate intakes of magnesium contribute to several causes of human disorders including osteoporosis and heart disease.

Mr. Chairman, the American people—whether they be farmers, ranchers, producers or consumers—are the benefactors of this research. We all share in the abundance of a high-quality and abundant supply of agricultural products.

CHANGING ENVIRONMENT

Mr. Chairman, the dynamics of the changing environment are placing increasing pressures on ARS and other research organizations throughout the world to find solutions to evolving complex issues confronting producers and consumers alike:

—Environmental concerns, new laws and regulations require research to replace existing or traditional tools to meet new or revised standards; furthermore, societal concerns about the world's environment require new approaches to providing an adequate and quality supply of food and fiber.
—The growth of the U.S. economy, foreign trade, competition with Japan and a changing Europe, etc., require new ideas and significantly larger investments in agricultural research if the U.S. is to maintain a strong position in the international marketplace.
—The world population, now at 5.3 billion people, will more than double to 11–14 billion people by the year 2100.
—Diminishing worldwide reserves of land, water and chemical and energy inputs.
—A 25-percent increase in atmospheric concentrations of carbon dioxide, much of which occurred during the past 30 years and directly attributable to human activity. While preliminary research findings indicated that carbon dioxide may stimulate plant growth, it may also contribute to disruptions in normal cycles in climate and ecosystems.
—Consumers' understandings and perceptions are changing about what represents safe water and safe and nutritious food.
—Dietary excesses and imbalances are considered to contribute to a number of life-threatening chronic disorders—coronary heart disease, cancer, stroke, atherosclerosis, diabetes, hypertension and osteoporosis—accounting for some 40 percent of deaths in the U.S. Current and future agricultural research must address these health issues.

MEETING THE NEEDS OF PRODUCERS AND CONSUMERS IN A CHANGING ENVIRONMENT

Our budget recommendations for fiscal year 1992 address specific environmental, health and productivity issues facing Agriculture as well as the larger American society. The ARS research and budget proposal identifies, in a strategic manner, current and future research investments we believe are essential if we are to respond effectively to the needs of producers and consumers in a changing environment. Meeting the Needs of Producers and Consumers in a Changing Environment—Mr. Chairman, no one phrase better encapsulates the essence of the ARS mission. ARS responds to the high-priority concerns and the goals of the Department, the Congress, users, and the American people. Increasing public concerns on the environment, health and safety, a strong production base and our ability to produce food and fiber at reasonable costs basically dictate our agenda for the 1990's. ARS resources must be targeted toward the needs of traditional agriculture as well as our society at-large.

FISCAL YEAR 1992 BUDGET RECOMMENDATIONS

The ARS program budget request for fiscal year 1992 totals $663,127,000, a 6.3 percent increase over the current funding level. ARS is proposing enhanced funding for several new or expanded research initiatives. In the area of natural resources

research, we are requesting an increase of $10 million to: reduce ground water contamination and enhance water quality; determine the effects of global climate change on agricultural resources; and to optimize agricultural uses of the residues associated with sulphur-removing cleaning agents in coal-fired power plants.

In the areas of plant and animal sciences, we are requesting additional funds amounting to $5 million for research to minimize chemical residues in food; develop new integrated pest management systems; develop data for minor use pesticides registrations; and to develop more efficient production systems.

In the post-harvest research area, we continue to place increased emphasis on enhancing food quality and safety. We are requesting an increase of $6 million for this specific purpose. Furthermore, we are requesting an increase of $2 million for a new research and development initiative on non-fossil energy resources, using genetically engineered systems to reduce the costs of commercially producing ethanol fuel.

We are also requesting $16,042,000, which represents the annualization of the 1991 pay raise and the anticipated 1992 pay raise.

Details of these proposals are, of course, provided in the Explanatory Notes.

BUILDINGS AND FACILITIES

The need for modern research facilities is critical. Some ARS facilities are deteriorating fast and have passed their useful-life expectancy. A few need major renovation to reach state-of-the-art conditions needed by scientists to carry out advanced and highly complex research studies. Others require renovation simply to meet existing State and local health and safety building standards. The fiscal year 1992 budget recommends funding for specific modernization needs of key ARS facilities requiring immediate attention, as well as completion of partially-financed research laboratories. Specifically, our proposal includes funding for the following projects:

—The Beltsville Agricultural Research Center—The Beltsville Agricultural Research Center is regarded as the largest agricultural research center in the world. It has long been recognized as a center of preeminence in the agricultural sciences. We are proposing an increase in fiscal year 1992 of $20 million to continue our program of modernization at this Center. The largest component of this request will be used to construct a new Plant Science Laboratory. This facility will bring together 55 scientists in a united cluster to advance high-priority plant research. Completion of the project is crucial to providing appropriate facilities for advanced plant science research and to vacate existing facilities to be renovated for other functions. Other modernization needs at BARC to be addressed in fiscal year 1992 are: building renovations; design of new insectary and manure lagoons; and construction of a consolidated poultry facility, and greenhouses. This request is in line with the overall master plan, phased over an 11-year period to modernize and restore BARC to its position of preeminence in the scientific community and worldwide agricultural research.

—U.S. Salinity Laboratory, Riverside, California—The ARS request of $10.25 million will allow the construction of this important laboratory to be initiated. This laboratory, which is engaged in the research technology to solve saline and sodic soil and water resources problems, is of national and international importance. EPA, SCS, AID, FAO, and other Federal and State agencies depend on this laboratory for research on these problems. The laboratory is carrying out research involving the recycling of saline drainage water for reuse in agricultural irrigation. This effort contributes toward solving the drought problems we're experiencing in the West.

—Plum Island Animal Disease Center, New York—An increase of $6 million is proposed in fiscal year 1992, concurrent with a $3.5 million cost-share request with APHIS for the modernization of this strategically placed center for foreign animal disease diagnosis, control, and research. This request represents the first year increment of a 6-year phased plan for modernization of this center.

—Southern Regional Research Center, New Orleans, Louisiana—Major deficiencies have been found in the heating system, ventilation, air conditioning, electrical, and health and safety building code violations in most facilities. An increase of $2.6 million at SRRC is proposed for construction of Phase II Chemical Wing Modernization. This laboratory is and has been a major contributor to the USDA utilization research program and the development of new and expanded uses of agricultural commodities.

—U.S. Fruit and Vegetable Laboratory, Yakima, Washington—An increase of $5.050 million is proposed to provide the final funding required to start construction of a new facility. The current laboratory facilities, although functional, are being leased and without specific assurances for extension beyond 1991. Also, urban encroachment is increasingly rendering the existing facility unsuit-

able for normal research activities. This facility houses critical research on the biology, ecology and control of insect and mite pests of deciduous fruits, vegetables and field crops.

—Poultry Disease Laboratory, Athens, Georgia—An increase of $400,000 is proposed for the planning and design of an additional laboratory wing. This will enable this facility to conduct a more comprehensive research program on exotic poultry diseases, such as avian influenza, salmonella enteritidis and exotic Newcastle diseases. The poultry industry has pledged substantial funding towards the structure.

In addition to the projects I have highlighted, our buildings and facilities request as detailed in the Explanatory Notes includes $1.8 million for the new National Seed Storage Laboratory at Fort Collins, Colorado. We anticipated the need for this additional funding at the time the budget was developed to fully fund the construction and cover additional inflation expected to result from delaying a construction award until fiscal year 1992. During this time period, we closely monitored conditions in the local construction market, given the availability of nearly all of the estimated construction funding required for the project. Based on our analysis of the market, we solicited bids for the project in December 1990. Bids were opened in early February, and I am pleased to announce that we will be able to award a contract for the construction of this critically needed facility this spring. We will revise our budget narratives to reflect our revised plans for the $1.8 million.

Mr. Chairman, this concludes my prepared statement. We will be happy to respond to any questions from the subcommittee regarding our fiscal year 1992 budget proposals or any activities we have in ARS.

STATEMENT OF DR. JOHN PATRICK JORDAN

Mr. Chairman and Members of the Subcommittee: The Cooperative State Research Service is the agency of the USDA through which Federal research and education funding for the States is channeled and coordinated on behalf of the Department of Agriculture, in cooperation with all of the State and Territorial Agricultural Experiment Stations; the Colleges of 1890, including Tuskegee University; all of the Forestry Schools; and all of the Colleges of Veterinary Medicine in the United States. In addition to land-grant universities, there are other universities, not of the land-grant model, which are participants in the system. All of these institutions operate as a very effective system to jointly address regional and national needs as well as their particular State and local agendas.

REPORT OF SELECTED SIGNIFICANT ACCOMPLISHMENTS

There are a number of exciting advances that I would like to report to you. Researchers in Texas, supported with Hatch Act funds, have made significant progress toward defining the genetic basis of host resistance to infectious diseases in cattle. A preliminary map of portions of the bovine genome has been constructed, including DNA markers in genomic regions which are very similar among cattle, humans, and mice. Consequently, bovine chromosomal segments homologous to those known to impart disease resistance to certain strains of mice are being studied in herds of cattle segregating resistance to infectious diseases, including brucellosis and respiratory disease.

Scientists at Florida A&M University have identified a protein marker in the peanut seed which will be useful to determining the maturity status of the seed. In addition, factors affecting natural resistance of peanut to aflatoxin contamination have been identified which should enable the industry to reduce aflatoxin contamination of peanut seed. This research was supported with Evans-Allen funds.

University of Arkansas investigators are providing farmers an environmentally-sound method to dispose of leftover spray solutions and rinsates, which may be a major contributor to ground water contamination problems in some areas. This Water Quality Grant has resulted in the development of an activated charcoal filtration unit that has successfully removed pesticides from rinsates generated under typical farm conditions. For example, trifluralin concentrations in 45 gallons of waste water were reduced from 640 parts per million to less than 1 part per million with 3 hours of filtration. The investigators are continuing the evaluation of this unit for ease of operation and efficacy and are also determining the feasibility for the microbial degradation of pesticides adsorbed to spent charcoal.

The gypsy moth, the major defoliator of oaks in the Eastern United States, spends the greatest portion of its life as an egg. During this lengthy embryonic stage the chorion (eggshell) serves the egg and developing embryo as a barrier to a variety of external threats, both natural and human caused. Thus, the gypsy moth chorion

is critical to the survival of the species. A researcher at the University of Maryland is examining the formation of the chorion with the goal that fundamental knowledge about its structure and its mode of formation will provide insight for biological control of gypsy moth. The investigator is determining ultrastructural changes during embryo development and cloning and characterizing the molecular components that are critical for survival during winter. Once the components are identified, the potential to transform gypsy moths so to disrupt these processes will be great and can lead to ways of promoting mortality in the egg stage. This research was funded under the Competitive Research Grants program.

NATIONAL INITIATIVE FOR RESEARCH ON AGRICULTURE, FOOD AND ENVIRONMENT

In the fall of 1990, a major new program was proposed for the Department of Agriculture—the National Initiative for Research on Agriculture, Food and Environment (NRI) with a goal of $500 million per year. The 1991 budget proposed $100 million as the first step. This research commitment would be expanded by $50 million each year to the extent that funds were awarded competitively and not earmarked for specific sites or institutions. Congress eventually appropriated $73 million in 1991 for the NRI. The 1992 budget continues the commitment to the NRI by proposing $125 million for this major agricultural research initiative. Six categories of research are proposed for funding with $23 million for natural resources and the environment including $9.4 million for global change and $4.6 million for water quality; $13 million for nutrition, food quality and health; $53 million for plant systems including $18 million for the plant genome mapping program with the Agricultural Research Service as the lead agency; $30 million for animal systems; $2 million for markets, trade and policy; and $4 million for processes antecedent to adding value and developing new products. There has been a coordinated planning process for the NRI which led to the initial development in March 1990 and the subsequent revision in February 1991 of the NRI Program Plan that is in your CSRS packet of material. This process involved a national symposium on research policy, a solicitation of input from users of research products, a major workshop and an assessment of resources needed to implement the various initiatives and related objectives of the Plan. For each specific year a set of user workshops and science planning efforts provide both user and scientist oversight of the program implementation.

Agriculture in the 1990's must provide better stewardship of the environment, more rational use of natural resources, improve the quality and nutrition of food, and economically stabilize production systems in order to continue to benefit producers as well as consumers. The NRI responds to the major issues facing agriculture such as food safety, water quality, global climate change, pest management, scientific human capital development and farm income and market competitiveness. It allows U.S. agriculture to broaden the science and technology base to more effectively meet these demanding needs and exploit new opportunities. These imperatives coincide with recent advances in biology and other new tools in science that present unique research opportunities to improve agriculture. The new opportunities have not been fully developed because of serious under-funding for agricultural research. Commitment to the NRI, along with expanded funding in future years, will address these concerns.

Federal funding for the Initiative is necessary because: (1) the issues and opportunities are national in scope; the Nation as a whole is the beneficiary of this effort, not just individual States or industries, (2) the Initiative undertakes research that does not, in general, produce specific patentable or marketable products, but knowledge that will be broadly applicable, (3) the need is urgent; the issues to be addressed require action now and cannot be delayed or taken up piecemeal, (4) the health and vigor of a major segment of U.S. industry is at stake in terms of international competitiveness, and (5) there are benefits, although difficult to measure in economic terms, related to protection of the environment and public health.

The demands upon agricultural science for new knowledge have far outstripped the capacity for the present USDA budget to provide needed leadership to a national agenda. New funding will allow us to take advantage of critical opportunities and speed up applications of biotechnology to agricultural uses; develop new crops for greater diversity and crops with improved nutrient composition, improve safety and post harvest quality; increase the number of projects using science to improve and/or protect the environment and preserve natural resources; and to reduce U.S. agricultural production cost and increase product value, which are seen as necessary first steps for increasing farm profitability and America's long-term international competitiveness in agriculture. The NRI, in concert with other USDA research programs, will be able to address the spectrum of agricultural research needs.

The key to the NRI is its balanced approach focusing both on fundamental research and the more applied. It is from this balanced approach that major conceptual breakthroughs are expected to emerge. Fundamental research projects will be both individual investigator grants (40 percent) and multidisciplinary team research grants (30 percent). Other forms of grants will be directed at mission-linked studies (20 percent), as well as institutional strengthening grants (10 percent).

Funds will be awarded through a competitive, science-based review process. This mechanism is uniquely suited to stimulating new research activity in specific, high-priority areas of science and engineering. All public and private universities, research organizations, Federal agencies, private organizations or corporations, and individuals will be eligible to compete for these funds. Our goal is to allow the average amount of USDA competitive research grants to be increased and the average duration to be extended. This will make USDA competitive research grants more comparable in size and length to grants awarded by the National Science Foundation.

The research agenda for the Initiative is both extensive and intensive. The needs for the research are enormous and the opportunities are at hand. The Initiative is a bold step forward to provide the scientific basis to assure agricultural productivity for future generations in ways that are compatible with the environment, safe for the consumer and viable for the producer.

BUDGET RECOMMENDATION

The CSRS budget recommendation for fiscal year 1992 is $409,151,000 which includes the $125 million for the National Research Initiative as well as a $25 million competitively awarded buildings and facilities program. We are fully appreciative of the overwhelming need to reduce spending in the Federal Government, but this budget continues to reflect strong support for the State-Federal partnership in food and agricultural research and education. The Hatch, McIntire-Stennis Cooperative Forestry, and Evans-Allen programs are the foundation upon which the remaining Federal funds including special and competitive research grants plus State and private industry funds build. Funding of these core programs is a high priority because they support the basic laboratory facilities, scientists, and graduate students necessary for the long-term stability of agricultural research. These programs allow the institutions maximum flexibility to support research of the highest priority and at the same time assure the strong working relationship between the USDA and the State Agricultural Experiment Station system. An increase of $6,005,000 is proposed for the Hatch Act. Consistent with the recommendation for fiscal year 1991, a decrease of $4,845,000 is proposed for the McIntire-Stennis Cooperative Forestry program. The budget recommendation contains a $975,000 increase for the Evans-Allen program which will support increased research consistent with a broader USDA initiative to strengthen the contribution of the 1890 institutions to agricultural and natural resources research and education.

The CSRS budget request includes funding for selected Special Research Grants and related programs which address important national needs such as integrated pest management, minor use animal drugs, the National Biological Impact Assessment program, pesticide clearance, pesticide impact assessment, sustainable agriculture, and alternative and supplemental crops. As a part of a coordinated Federal water quality initiative, CSRS is requesting $10.0 million to conduct water quality research in the Midwest Corn Belt and in other major agricultural production regions consistent with the USDA Research Plan for Water Quality. A grant program for global change is also being requested at a $5 million level for research at universities as part of a Federal initiative coordinated by the Committee on Earth and Environmental Sciences. Research will be conducted on biomass fuels from agriculture and methane sources and uses. Also, an assessment of UV–B levels is to be achieved by a monitoring network of stations. The resulting data will provide information for UV–B baseline determinations and forecasts of future levels. An international workshop on UV–B monitoring, held in January 1991, provided guidance on monitoring network size and operational needs. The Special Research Grants funding mechanism will allow focused research on the National research priorities identified by the workshop and other atmospheric science leaders. For economic crops and trees, Special Research Grants will be awarded to determine whole-plant vegetative and reproductive growth responses to different levels of UV–B radiation. The Special Research Grants program, therefore, will foster applied systems research that will complement the basic cellular and subcellular research underway in the National Research Initiative Competitive Grants Program on Plant Responses to the Environment.

HIGHER EDUCATION

We are extremely pleased this year to include in the budget an approach begun in 1990 to strengthen higher education in the food and agricultural sciences. The Department is very proud of its efforts and accomplishments in the higher education arena to date but much remains to be done. Therefore, we are proposing a finely tuned, integrated program which includes the Graduate Fellowships and Institution Challenge Grants programs. We are also proposing an increase for the Capacity Building Grants program for the 1890 institutions.

The National Needs Graduate Fellowships Program recruits and trains doctoral fellows in targeted shortage areas such as biotechnology, bioprocessing/engineering, food science/human nutrition, marketing, and water science. Grants are awarded competitively to institutions identified via the science-based review process as offering excellent teaching and research programs in the targeted areas. CSRS is requesting $4 million in fiscal year 1992. This program was initiated in 1984 and has served to attract almost 500 superior new graduate students from a broad array of academic backgrounds into high priority disciplines. Without the fellowships program, many of these students would not be pursuing graduate study today in a food or agricultural discipline.

The Institution Challenge Grants Program is designed to revitalize the educational system which is primarily responsible for training food and agricultural scientists and professionals. It stimulates the private sector to match, dollar for dollar, the Federal partner in providing support to strengthen the infrastructure of the U.S. food and agricultural sciences higher education system. This $1.5 million program will foster partnership ventures among universities, industry, and government. Areas of partnership initiatives include curricula revitalization, faculty development, scientific instrumentation for teaching, undergraduate research including minority participation, and student recruitment and retention. Several of the projects supported with fiscal year 1990 funds will develop and deliver instruction in such areas as animal genetics and food science via AG*SAT, the national satellite network developed by a consortium of 32 land-grant universities. Other projects will enhance agribusiness education, enrich programs of study through international experiences, and establish summer research programs for minority undergraduate students.

The 1890 Institutions Capacity Building Grants Program serves as the crux of the Department's high priority initiative to advance the teaching and research capacity of the 1890 institutions and Tuskegee University. CSRS is requesting $11 million for this program. It is a competitive program and requires cooperation with one or more USDA agencies in developing a proposal and in carrying out the capacity building project as well as an academic institution with a recognized center of excellence which directly relates to the objectives of the proposal. The institutions are required to obtain dollar-for-dollar matching funds from non-Federal sources. Funds will be targeted to initiatives which transcend the capability of a single institution to achieve. The program is designed to encourage expanded linkages with 1890 institutions as performers of research and developers of scientific and professional talent for the food and agricultural system.

BUILDINGS AND FACILITIES

To meet future challenges in agricultural research, the United States must address the condition of the research infrastructure. The condition and amount of research facilities and equipment dictate the quality and scope of research, limit the system's capacity, and are vital factors in the recruitment of quality faculty and graduate students. The agricultural research system has been forced to defer needed renovation, construction, and purchase of facilities and equipment in order to maintain agricultural research programs.

Historically, States have provided the majority of the funds for agricultural research facilities at agricultural research universities. However, the current need exceeds their capacity to respond. The Department of Agriculture's National Research Initiative is calling on the State land-grant universities for increased effort on national issues important to agriculture, food, and the environment. The Nation will be unable to obtain adequate science for agricultural research in general and the NRI in particular so long as the physical plant at the Nation's agricultural universities and research centers are in need of radical improvement. A Federal investment in research facilities will strengthen research capabilities and help maximize the return on the NRI investment in research.

Since 1986, CSRS has administered grants for construction of facilities at colleges and universities, as determined by Congress. In keeping with the partnership nature of agricultural research, a Federal contribution to university facilities is appropriate. However, a coordinated assessment and funding of research facilities and

equipment in national priority research areas is needed to efficiently provide the needed research capacity to meet the complex problems of agriculture.

In the continuing spirit of partnership, the fiscal year 1992 budget proposes $25 million for a competitively awarded program of facilities grants that will fund proposals in the context of research priority areas for which there are significant shortages of research facilities and equipment in the Federal-State system. The program is proposed under the Research Facilities Act of 1963, as amended, to assist eligible institutions in the construction, acquisition, and remodeling of buildings, laboratories, and other capital facilities which are necessary to more effectively conduct research in agriculture and related sciences through means of matching grants from the Federal Government. This facilities program is recommended for continued funding at a level equal to 20 percent of the NRI's proposed funding level. To the extent that these construction funds are awarded competitively and not earmarked, the Administration would like to see this program increased.

Mr. Chairman, that concludes my prepared remarks. I will be pleased to answer any questions.

STATEMENT OF DR. MYRON D. JOHNSRUD

Mr. Chairman and members of the Committee, I appreciate the opportunity to discuss the fiscal year 1992 Extension Service Budget Proposal. We, in the USDA-Extension Service and throughout the Cooperative Extension System (CES) are extremely pleased with the Administration's Budget Proposal, and believe it reflects a genuine commitment to using the capabilities of the Extension System to address national issues that are priority needs of individuals, families and communities.

Extension's purpose is education—practical education for Americans to use in dealing with the critical issues that have an impact on their daily lives and the nation's future. The thousands of Extension professionals, paraprofessionals and the nearly three million volunteers are crucial to providing this education and magnifying its impact, educational programs that are focused on and tailored to society's most pressing needs in the next decade.

Four years ago the Extension System launched an intensive strategic plan with the goal of taking programs from their 75 year old foundation to a new decade, a new direction, and a new century. We have set our sights on becoming a more relevant, dynamic and flexible organization; an organization able to make a greater impact on problems and opportunities brought about by changes in the global economy; the environment; demographics; and family, values and resources. With the support of Congress and the commitment by the Administration, the Extension System is well on the way to achieving this goal. The fiscal year 1992 Budget Request is a result of the System meeting the challenges of its strategic plan.

In order to focus on this effort, the Cooperative Extension System initiated the concept of "Issues Programming." Issues focus program efforts around a specific need, problem or concern. Issues provide a basis for establishing program objectives, content and delivery methods. The fiscal year 1992 Budget Request addresses several of the most relevant issues now being dealt with throughout the Extension System.

The Cooperative Extension System is constantly shifting resources to meet the changing issues of the people it serves. These issues drive the program. As issues change, changes also occur in program priorities, organizational structures, and external relationships. Our Status of Program portion of the Explanatory Notes outlines some of the concrete accomplishments resulting from "issues programming." Please allow me to mention some notable accomplishments from these efforts.

In the area of Water Quality, in cooperation and collaboration with the Soil Conservation Service (SCS) and the Agricultural Stabilization and Conservation Service (ASCS), eight demonstration projects (California, Florida, Maryland, Minnesota, Nebraska, North Carolina, Texas, and Wisconsin) have been established. A second series of eight (Arkansas, Colorado, Georgia, Idaho, Iowa, Michigan, New York, and South Dakota) demonstration projects have been selected and planned for implementation. The projects are designed to demonstrate and accelerate the voluntary adoption of agricultural production practices that are both cost effective for producers and reduce or prevent contamination of ground and surface water from agricultural chemicals and animal wastes.

In the area of Food Safety, the University of Massachusetts Cooperative Extension Service has developed a program for food handlers who work with high risk populations—staff in congregate meal sites and shelters, and family day care providers. The program teaches participants the risks involved in improperly handling foods, recommended practices to minimize contamination, local regulations regard-

ing sanitation and hygiene and the benefits of safe food handling. The program was developed and delivered in cooperation with local volunteer organizations, health professionals and local and state government agencies.

In preparing youth for a high tech and global future, Michigan State University Cooperative Extension Service developed a program, with funding by W.K. Kellogg Foundation, to prepare adolescents (9–15) to enter the world of the future with the confidence and skills they need to succeed. This program provides experiences in three critical areas: science and technology, personal coping skills and global issues. The program reached 7500 youth, assisted by 750 volunteers in 1989. A videotape, teaching/learning guide curriculum package titled "Help Me—I'm Growing Up. Understanding Early Adolescents" provided the core program support.

Sustainable agriculture systems are site specific. Farmers and ranchers must have the capability to simultaneously assess and evaluate their site-specific problems and opportunities to make technological changes that enhance the sustainability of their systems. The Cooperative Extension System in cooperation with producers, researchers, USDA agencies, other government agencies and private sector organizations, has developed educational programs that allow agricultural producers to appraise and evaluate their production systems both environmentally and economically. This decision support system is rapidly being accepted as a useful tool for implementing effective technology that will enhance sustainability of site-specific agricultural systems.

PROPOSED FISCAL YEAR 1992 BUDGET

The Budget Proposal for fiscal year 1992 for Extension Service totals $410,817,000.

The proposed overall funding levels and the specific budget items are reflective of the Administration's priorities and the increasing role of the Cooperative Extension System in addressing major national issues.

The fiscal year 1992 Budget Proposal provides the Federal partner of the Cooperative Extension System with resources that will be directed to the following priorities: Funding for National Base Programs, provide for core support in programs for education, application of technology and the delivery of information; further enhance the capacity of the 1890 Institutions and Tuskegee University to provide clientele with Extension expertise to develop and improve decisionmaking skills, better manage available resources and increase farm and family income; bolster efforts in the President's Water Quality Initiative, Youth at Risk, Food Safety, and Environmental issues; and provide direction to the Cooperative Extension System in responding to national concerns through increased national leadership, direction, and support.

An increase of $9,492,000 is proposed for the Smith-Lever 3(b) & (c) formula funds. The fiscal year 1992 emphasis is support for funding base programs; strengthen scientific and county level field staff capacity in support of priority initiatives; and focus on critical national issues.

An increase of $4,206,000 is requested, consistent with USDA's commitment to strengthen the 1890 Colleges and Tuskegee University. Funds will focus on educational programs targeting drug abuse, teen pregnancy, aging, sustainability of small-farm operations, and nutrition and health.

$15.5 Million is proposed for water quality programs in fiscal year 1992. Funds will support Extension participation in educational programs under the USDA Water Quality Plan for non-point hydrologic units, demonstration projects, improved management practices and for the transfer of Federal and university research results to agriculture producers and community leaders.

The problems facing America's youth have not diminished. The $15.0 Million requested for Youth-at-Risk will provide for additional community-based educational programs for youth, parents and local leaders, and for extending intensive, comprehensive program delivery to high-risk youth and families. Extension staff resources in developing and implementing these programs will be expanded. The initial funding of this program in 1991 has generated a significant amount of matching support throughout the Extension System and the private sector.

$2,000,000 is proposed for educational programs to effectively address public concerns over pesticide residues in food. Programs would be targeted to all members of the food supply chain with a focus on protecting the safety of the food supply. Funds will expand efforts initiated during 1991 to educate farmers, merchandisers, and consumers regarding safe production, handling and food preparation procedures.

We are requesting an increase of $350,000 for Pesticide Impact Assessment. This increased funding level will make it possible to accelerate the assessment process and further enhance the national data base of pesticide usage.

An increase of $2,550,000 for Integrated Pest Management programs is proposed. Pest Management programs will be expanded to include horticultural crops and the promotion of human and environmental health through the safe use of pesticides.

The proposed funding level of $58.6 million for the Expanded Food and Nutrition Education Program (EFNEP) will enable the Extension System to continue implementing program improvements which allow more efficient delivery of EFNEP education. The, in effect, "level" funding proposed will enhance EFNEP professionals and paraprofessionals in reaching people in clusters or small group settings, increasing the frequency of teaching and establishing partnerships with other organizations to recruit eligible families. Program focus will continue on nutrition education, food management, and improved diets and health.

Lastly, we are proposing the elimination of the earmarked funding for lower priority programs, i.e.; Urban Gardening; Farm Safety; Rural Development Centers; Indian Reservation Extension Agents; RREA; Disadvantaged Farmer Assistance Grants and certain special projects under the Federal Administration account.

This concludes my remarks, Mr. Chairman. I will be happy to respond to any questions from you and other members of the Committee.

STATEMENT OF SENATOR COCHRAN

Senator BURDICK. At this time I would like to recognize my colleague on the other side, Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you very much. It is a pleasure to join you today in welcoming this panel of witnesses. The work of the Agricultural Research Service and the Cooperative State Research Service, both under the jurisdiction of our Assistant Secretary for Science and Education, Dr. Hess, is very, very important. We are developing some very important research efforts under the jurisdiction of these agencies and these witnesses. I want to commend all of you for the work you are doing.

The Extension Service continues to provide valuable information about scientific and technical information throughout the country, and this is a very important effort that helps to ensure that we maintain a healthy and vibrant agricultural sector.

BUDGET PROCESS CONSTRAINTS

We are concerned because of the necessary constraints on our budget process, given the budget agreement that was worked out last year. We have new constraints that were imposed upon the process, and we all have to respect that, or we should. We hope to be able to do our part to carry out the terms of that agreement, because we think it makes an important contribution toward ensuring the continued health of our economy and our ability to see it create jobs and serve as a model for nations throughout the world.

We respect that, and we do not want to get carried away too much with the appropriations process in terms of the opportunities it presents to go beyond the restraints that are built into that agreement. So, I think our job is to identify priorities this year and to make sure that those that have the highest priority and are the most important receive the funding they need and are treated fairly.

Mr. Chairman, I have some specific questions, for all of the witnesses, and I hope that I will be able to submit those for the record. I have additional questions on behalf of Senator Hatfield and some which have been suggested to me by Senator Simpson. I would ask the witnesses to respond to these questions for the record.

Senator BURDICK. Senator Kerrey.

STATEMENT OF SENATOR KERREY

Senator KERREY. I have no real opening statement, Mr. Chairman, other than just to reassert the value that research brings to production agriculture, particularly to States like Nebraska that are so heavily dependent upon not just production agriculture but also the value that is added to the raw commodities that are produced and processed in my State.

I appreciate the emphasis that is placed in the budget on value added research, and I appreciate as well the emphasis that is placed upon the environment, both of which it seems to me are being called for by the agricultural community itself.

I look forward to asking some specific questions of the witnesses later.

Senator BURDICK. Senator Kasten.

STATEMENT OF SENATOR KASTEN

Senator KASTEN. Mr. Chairman, thank you.

If I may, I would like to make just a couple of brief comments, Dr. Hess, with regard to the role that you are playing in terms of the partnership with a number of the Nation's colleges in addressing critical problems facing agriculture and also rural areas.

RURAL HEALTH CARE

I know that you all have worked back and forth on parts of this, but a lot of the farming and rural communities' problems are the lack of access to quality health care. People have been leaving rural areas. There are questions about whether we can keep physicians in hospitals and the whole question of the infrastructure of health.

In that regard I know that you are familiar with the proposed rural health information and technology initiative by the Medical College of Wisconsin. What we are trying to do is demonstrate a medical support network that would help to alleviate many of the problems of isolation that face health care providers in rural areas.

I would like to just get your general comments with regard to the need for additional support for rural health care.

Dr. HESS. Thank you, Senator Kasten.

We have a number of programs, some of which have been initiated by the 1990 farm bill that Dr. Johnsrud may wish to speak about in terms of rural health care and delivery and some cooperative projects with Easter Seal Foundation in that regard.

We recognize the difficulty that many rural communities are facing. In fact, last summer the Joint Council and Users Advisory Board visited western Minnesota and looked at the small town of Dawson and how it was trying to wrestle with the problems of decreasing populations and maintaining essential services such as health care, schools, and the infrastructure needed for agriculture in terms of equipment, repair of facilities, and so forth. We view part of our responsibility as helping to train leadership in those communities to help them address those problems.

A second approach is through new product development which will hopefully create new industries that will generate jobs. As we

viewed Dawson, one of the real challenges is after people go to high school and graduate and go off to college, they then tend to return to their communities. They would like to live there, but the economic opportunities just are not sufficient to support them. So then they move to the urban areas, away from the rural communities.

So these are challenges where we see agriculture playing an important role, in helping to provide leadership for the rural communities, in helping to develop new industries, new products, and planning in some cases for regionalized services. In some cases it is just not going to be possible to save every small community.

MEDICAL COLLEGE OF WISCONSIN

Senator KASTEN. With regard to the Medical College of Wisconsin project, I understand that there was a recent facility study, and the preliminary feedback was very favorable. There is also now, I understand, a question as to how the cost sharing might be worked out. I think it is important that we do have cost sharing on, say, a 50–50 basis.

Is it your understanding that we can work out this cost-sharing formula with projects like this?

Dr. HESS. I think so. As you know from the letter I sent you last Friday, we were looking at that issue, and we will work together in trying to address the cost-sharing requirements.

There were some components, as I understand, that were considered not appropriate, and those, I think, we will just have to discuss and see how they can be worked out.

Senator KASTEN. I thank you for that answer, and I look forward to working with you because I think that this whole technology sharing has to be a very important part of the overall medical process.

You pointed out how important hospitals and doctors and medicine were to rural communities. I think when people are deciding to locate or relocate, they kind of get out of their car or off the plane or off the train or whatever and they ask two questions. One question they ask is tell me about the education in this community. What kind of schools are there for the kids? The second question they ask is tell me about health care in this community.

If you cannot answer education and health care, people are going to tend to go to another community, even with important kinds of rural development programs. That is what we are trying to get at. I think it is a very important part of your overall task here, and I am happy that you recognize it as such.

CEREAL CROPS RESEARCH UNIT

I have one other point that I just wanted to quickly bring up, and that is with regard to research programs at the Agricultural Research Service Cereal Crops Research Unit, which is in Madison. The American Barley Malting Association was concerned about an issue, talking about this research unit being an essential component of the barley research effort in the United States, its malting quality evaluation and basic research programs throughout the United States in the malting and the brewing industry.

A critical malting quality evaluation at this facility was recently vacated due to retirement and has not been filled by the ARS. Why is the ARS not actively seeking to fill this position?

Dr. PLOWMAN. I would be pleased to respond to that.

Like many of our other programs, with inflation and other costs it has not been possible to keep up with the cost of doing business. In many places we have not been able to backfill behind vacancies, and this is just another situation like that.

In order to support the other people and the rest of the program that is there, we elected not to backfill this position.

Senator KASTEN. Well, we might be able to have a chance to work with you in this budget cycle to see if we can determine other ways to fulfill these needs. I understand what you are saying. It has created a little bit of concern among some of the people in the malting and brewing industry.

ALTERNATIVE AGRICULTURE COMMERCIALIZATION

Mr. Chairman, I have another question with regard to the Alternative Agriculture Research and Commercialization Act, and I would like to submit that question, if I could, to Dr. Hess in the record.

I thank you very much, Mr. Chairman.

Senator BURDICK. Senator Adams.

STATEMENT OF SENATOR ADAMS

Senator ADAMS. Thank you, Mr. Chairman.

I want to first express my appreciation to you for starting the subcommittee hearings with the first hearing devoted to research programs of the Department of Agriculture. Although these programs represent only a tiny fraction of the total budget that is involved with the Department of Agriculture, they are critical to the vitality of agriculture in my State. This is the largest industry in my State, which may surprise a lot of people because we build a few airplanes there, also.

The Agricultural Research Service and the Cooperative State Research Service, which are aimed at increasing productivity of our farms and orchards, are very important to us. I want to stress this in my opening statement because it leads to my question that I have for you, Dr. Jordan, and you, Mr. Secretary.

FOOD SAFETY

We have had some problems with a healthy and a safe food supply. This panel is directed toward, in my opinion, where we can restore needed confidence in the consumer about the safety of our products. Our products are safe, but they have to appear to be safe as well. The administration has stated that it wants safety and environmental pesticide research as a top priority, but they propose to eliminate funding for the Food and Environmental Quality Lab at Washington State University's Tri-Cities Branch.

FOOD AND ENVIRONMENTAL QUALITY LAB

This lab was created specifically to undertake critical research and educational activities and complement the work of the Yakima Lab. I want to assure the administration and all those present here today that I intend to fight for full funding of that laboratory. It is terribly important to the Tri-Cities. It is terribly important to the people throughout the agricultural community, particularly in orchards and in some of our smaller so-called minor crops. I am disturbed about the zero budget that the administration has put in.

I am very pleased and I want to compliment the panel and the administration for including $5.1 million to complete the Fruit and Vegetable Lab in Yakima. I have been a strong supporter of this project. These two labs are tied together, and the cities are quite closer together. What we are trying to produce is basic research to develop disease-resistant varieties of barley, peas, lentils, potatoes, wheat, and other crops which are essential to Washington's farmers.

Dr. Jordan, I know this is within your purview, and if you wish to comment as well as the Secretary I would appreciate it.

I also want you to know that we appreciate the work of the IMPACT Center at Washington State, and the Forestry Center, which have contributed a lot toward expanding our exports. Funding for these centers has also been eliminated, and I will work with my colleagues to ensure that money for these institutions is maintained.

I do not want to take a lot of time from the chairman and others. We are trying very hard in this part of the State to shift these cities from some of the manufacturing that they have been engaged in. For example, at Tri-Cities they are heavily involved in a nuclear program and will no longer be. They are going to be in waste cleanup.

The whole Yakima Valley is a marvelous agricultural area, but we have to develop basic, disease-resistant crops. That is the reason for these laboratories. That is the reason for the American farmers and consumers wanting to join hands. Your panel and the Department of Agriculture through its laboratories is the only way that I know to assure this.

So, Mr. Secretary, I hope that we can look forward to working with you, and I would be happy to have you or Dr. Jordan respond, particularly to the question of funding for the Tri-Cities Lab. We are putting money into other laboratories that deal with physical things such as irradiation, cleanup of nuclear waste and so on. This type of complex is, I think, where this Nation is going, and we would like to hear from you on it.

Dr. JORDAN. Senator, that program is indeed a sound one, and it involves not only the State of Washington but Idaho and Oregon. It has the basic plan laid out. Of course, its real productivity begins probably with fiscal year 1991.

If you will remember, sir, the first year's funding was $49,000 in fiscal year 1990. In fiscal year 1991, the appropriation was $484,000 for that program. Our expectations in terms of priorities for bringing you our budget recommendations for 1992 take into account the importance of safety in the food supply, and it is one of

the particular reasons, Senator, why the National Research Initiative's subunit for Food, Health and Safety Program was boosted to $13 million, to focus heavily on that program area. So we are in agreement about the significance of it.

INTERREGIONAL PROJECT 4

Senator ADAMS. Dr. Jordan, we have the problem, as you well know, of reregistration of pesticides used on the so-called minor crops. A number of the major companies that have been producing either herbicides or pesticides simply will not go through with this process for smaller crops. We, therefore, desperately need these laboratories as well for the safety and research reasons that I mentioned before, because we all are well aware of what happened with the Alar scare.

The only way we can prevent that from happening again is to be certain that our laboratories are up to date in producing the same type of information that may be produced by various groups that may want to question a particular product. I am not criticizing consumer groups for wanting food to be safe and the appearance of it to be safe; but we need this desperately. I just wanted to serve notice, and I am hopeful that we can work with you to obtain the funding for these laboratories.

Dr. JORDAN. That fits well, Senator, with the recommendations for funding the Hatch Act Interregional Project 4. It is going to fit well together.

Senator ADAMS. The IR–4 program is one we will get to at another time, but I am concerned about the zero funding for that Tri-Cities Lab. I am grateful for the Yakima Lab, because it had to be redone, and it is being redone. We have a good start on the Tri-Cities Lab, and I just want to be certain that we continue on with it this year.

Thank you, Mr. Chairman.

Senator BURDICK. Senator Kerrey.

ALTERNATIVE AGRICULTURAL COMMERCIALIZATION

Senator KERREY. A couple of questions, Dr. Hess. I think Senator Kasten referred to it earlier, and perhaps the question that he is going to submit will be the same as mine.

I assume you are familiar with section 1657 of the farm bill, the Alternative Agricultural Research and Commercialization Act. I understand the administration has not requested funding for this program. Is that a correct understanding? If so, do you intend to request funding for that program?

Dr. HESS. Senator Kerrey, let me approach the answer in a little bit of a roundabout way and then get specifically to your question.

We are very supportive of research in this area of new product development. As you may recall, in the administration's proposed farm bill, the so-called green book from the Department included a section on industrial uses of agriculture materials and their commercialization. There does continue to be a debate as to where the Federal role ends and the private sector role begins.

The Users Advisory Board did a study on the topic and came up with the term investor grade technology; that is, it is our responsi-

bility to do the research and carry it on to a point where an investor may feel that the risks are satisfactory that they will invest and carry it to a commercial product.

Dr. Bromley talks about precompetitive generic research, and as evidence that there is this debate, the President in the signing statement of the 1990 farm bill made the following comments:

> While I strongly favor the idea of commercializing existing innovative technologies, I do not support the establishment of the Alternative Agricultural Research and Commercialization Board to provide federally subsidized grants and loans to the private sector for this program.

Now keeping this sort of a dilemma in mind, we are taking the following actions. We have revised the Departmental Regulation in regard to industrial products from agricultural materials. Under that regulation which was signed about February 22, I believe, by Secretary Yeutter, a task force has been created which I chair which will bring together all of the agencies in the Department that are involved in commercialization. We are going to coordinate activities not only internally but also with the private sector and the land-grant universities and recommend to the Secretary alternative ways to fund and support the development and transfer of technologies that use agriculture and forestry materials.

Now in terms of implementing the new legislation, we have some limitations as to what can be done without an appropriation. The newly established task force will address the issue of implementation and scheduling as part of our overall planning process, in terms of how far we can go with the limitations imposed by Congress and in terms of zero appropriations in this particular area.

Again, I look forward to trying to work together and achieving our mutual goals in this area.

UTILIZATION OF AGRICULTURAL COMMODITIES

I should also point out what exactly we have been doing in the last couple of years. The Agricultural Research Service is in the process of redirecting $50 million of its funds for research on the nonfood use of agricultural commodities. We have a number of examples of new commodities, some of which you have already heard, like Kenaf, the Super Slurper and some of which have led to new industries. As I was describing to Senator Kasten, there is a firm in Illinois which is taking Super Slurper and has made filters for fuel to remove moisture. They have put out about 300,000 filters and employ 100 people. So that is a new industry in the State of Illinois.

We have many new products coming from ARS' Regional Utilization Research Centers, Oat Trim is a product that will not only substitute for fats in pastries and ice cream but, being a product of Oat Bran, also has a dietary benefit of absorbing cholesterol. So not only can we provide a new source which has better dietary qualities but it also has a direct health effect.

We are working on fully biodegradable plastics. As you know, we have a number of plastics which are biodegradable by incorporating starch in the plastics. The difficulty is when they break down you still have pieces of plastic left. There are microorganisms which produce plastic polymers from starch, and the Navy has provided funding in this area because they now have a requirement that

they can no longer put plastic materials into the ocean. So here again, we are working with the commercial sector and drawing upon ARS' basic laboratory experience in this new product area.

Finally, I think the new energy strategy, the Clean Air Act and trying to reduce our dependence upon foreign sources for energy provides a great opportunity for agriculture as a source of biomass for alternative fuels.

TASK FORCE ON COMMERCIALIZATION

Senator KERREY. Did I hear your answer correctly? Could I restate what I understood to be your answer, just to take a different run at it?

Did I hear you say that the administration is going to put a task force together to determine whether or not an act passed by the Congress should be implemented? Is that what I heard you just say?

Dr. HESS. Well, not quite exactly.

Senator KERREY. Do you think we have enough task forces around here right now, Dr. Hess? I mean, is that not what you said to me? Are you going to assemble a task force to try to discover whether or not you can somehow square the President's unwillingness to intervene in the marketplace with the desire on the part of producers to get some sort of assistance for the development of industrial products?

Am I hearing your answer incorrectly?

Dr. HESS. My answer is as follows, Senator Kerrey.

Senator KERREY. First of all, your answer is no, the administration is not going to request funding for the program until the task force reports; is that right?

Dr. HESS. The answer is yes to your question. The administration has not requested funding under what I interpret the President to have said in his signing message. I would assume that the answer will be no, that we will not request it.

Now there are two issues.

Senator KERREY. Dr. Hess, let me press on this a little bit, because the fact of the matter is almost every expenditure in research does precisely the opposite of what the President says he does not want to do. Let me read some of your own words here, if I can.

Under animal science of ARS: "Modern animal production systems increasingly rely upon confinement of large numbers of animals in feed lots and buildings. Disposal of these wastes can become a significant health and environmental problem," you go on to say, "and can limit production efficiency; therefore, development of appropriate management systems needs to be done to permit integration of this source and plant nutrients and crop production," and so on and so forth. Thus, you are requesting an increase of $1 million for 1992 to pursue research opportunities in this area.

FEDERAL ROLE IN COMMERCIALIZATION

Dr. Hess, the object is to help large operations become more efficient, somehow lowering their cost or making them more environmentally sensitive. Is that not true? We are not talking about a university research project here. You are talking about actual com-

mercial application, and we are going to spend $1 million trying to help these large operations become more efficient. Is that a fair statement?

Dr. HESS. There is no argument with that, Senator Kerrey. The argument is as follows. What is the appropriate Federal role in the overall scheme of things in terms of going from basic research to a commercial product? As I read the concern, it is specifically with providing federally subsidized grants and loans to the private sector for taking the product beyond what we might call investment grade.

Senator KERREY. Dr. Hess, what you are saying is if I have an existing operation, particularly if it is large enough that I can have some influence over the Federal appropriations process, then I am going to have an opportunity to get some research money to help me become more efficient. But if I have a new product that I am trying to develop for an industrial use, then I find myself up against a philosophical objection that is nonetheless consistent with other research efforts that are being done.

When I go back to a farmer in Nebraska who is trying to develop an industrial product, what do I say to him? Do I say that that inconsistency is apparent, or do I say that there is some other argument that can be made to make that inconsistency less apparent? Am I missing something here? Are we doing research right now that assists commercial operations to become more efficient? Is there some reason, therefore, that we should not try to assist new commercial operations as they try to develop a product for the marketplace?

Dr. HESS. No; I do not feel that we should not, but I think the question is how far do you go to develop that technology for market? We feel that there is a critical role for us to play to help translate basic research into uses. In other words, we are concerned because Japan has come to the United States and studied in our universities and taken research information and turned it into a product and then sold it back to us. We would rather be developing that product and selling it as well.

Now what I see this task force doing is trying to find the way in which we can do this best working together with the public sector and the private sector.

We recently held a university/industry/government roundtable addressing this commercialization topic. As you look at the basic research and new product, you see a decreasing role of the public sector and an increasing role of the private sector. I think the philosophical argument is where between that spectrum of events does the public sector play a role and where does the private sector pick up?

Senator KERREY. I appreciate the philosophical argument, but the fear that I have is based upon some of my own experience in the private sector. An opportunity not seized is an opportunity lost, and there are opportunities out there right now that are being lost.

I do not object at all to toughminded analyses of how far we should go, but to suggest that we need a task force to do an analysis of this, it seems to me, is to simply say, without wanting to say it, that we do not like Congress' suggestion.

Congress' suggestion, by the way, Dr. Hess, is not coming from the universities. It is coming from producers themselves who are struggling, trying to generate value added product for the marketplace. I think you are quite right. Not only the Japanese but the Europeans as well are far less shy about this philosophical problem that the President has. They are far less shy about it.

I must tell you that my fear is that 10 years from now we will be importing an awful lot of products that have been developed as a consequence of this lack of shyness on the part of the Japanese and the Germans.

These are very small scale projects. They do not have the muscle that some of these larger operations have, and they are not able to exert great influence on our decisions. We are prepared to argue strenuously that this is a very small and cost effective effort. It allows you to be as hardnosed as you want in evaluating whether or not somebody has done their homework, or whether or not the marketplace is ready for the product. All that can be done. You can say no as many times as you want, and it will not offend me.

However, when we in the Congress have identified not only a need but an opportunity, it seems wrong for the administration to base its opposition on a philosophy that is being applied inconsistently at USDA and other areas of the Federal Government. I say that with great respect for the rest of your budget. I think you have done an awfully good job in many other areas here.

I have some direct experience with this one area, and I hope the President reconsiders his position. If he does not reconsider, then he should apply that standard to the rest of research. If you do not want to put money out there for certain research projects that are not fully developed—and that is the philosophical underpinning of this program—then apply that standard to the rest of research. If we are going to apply that philosophy across the board, I think you will change the nature of research in America. Perhaps that is good. Perhaps the President is ready to defend that in other areas, but I do not see it expressed in the budget.

UTILIZATION LABORATORIES

Dr. PLOWMAN. Could I make a comment about that?

Senator BURDICK. Yes, sir.

Dr. PLOWMAN. In addition to this law in the farm bill there are some other ways that we are going about doing exactly what you are talking about. In ARS we have had for many years, as you well know, four utilization laboratories, and in the past couple of years we have put a lot more emphasis into trying to get the products of those laboratories into commercial hands.

Just this past year, for example, we have licensed 20 different firms on new products coming out of the laboratories. We have over 120 cooperative agreements on commercialization and development projects with industry. So we are trying to work very closely with those people in the field that have an interest in our products to try to further develop them and get them into use.

Senator KERREY. I am familiar with those laboratories, and they do very good work, Dr. Plowman. My concern is that, as you know, there are an awful lot of laboratories actually out there on the farms. They are very low cost laboratories, and these are individ-

uals who are very supportive of what ARS does and very supportive of what Extension does, and very supportive of all the basic and applied research that the land-grant colleges do. They are not people who are hostile to that research. They are trying to apply the research themselves. They have good ideas, and all they want is an opportunity to determine its commercial viability.

I know that it can sound on the face of it like a boondoggle, but these folks might otherwise get their capital someplace else. The application and the development of the product may occur someplace else—perhaps overseas. I know I have come across rather strongly on this, but I just see economic opportunity being wasted.

I believe the future for real wealth generation in agriculture and for development of rural communities is going to come in value added products, whether it is value added food or value added in associated manufacturing or value added in marketing or value added in transportation and storage. That is where our real wealth is going to come. It is going to come as a consequence of some individual out there understanding the marketplace and developing the technology on site but needing a little assistance to get over the edge.

I am fully aware that there are more people out there who want to make money than who know how to do it, so I do not object to your saying no to them, but right now it seems to me they do not have the opportunity to get a yes or a no.

NEW USES RESEARCH

Dr. JORDAN. Senator, if I could add a little bit to it. It should be encouraging to you that the Department embraces the goal that you have identified. In fact, in the current year there is $85 million in the USDA budget for new uses research. These funds would be from ARS, CSRS, the Economic Research Service, and the Forest Service. In your goody bag you will find some golf tees. They are made of 98 percent starch. That is going to be good for the environment. Not only is it a new kind of approach, but it is environmentally sound as well.

This is a container of transmission fluid supplement that is made from erucic acid from crambe/rapeseed. These are new products grown in your area, Senator, that I think are extremely interesting.

We are funding some projects that are leading to the new nylon 1313, which is extremely successful. It comes from crambe/rapeseed as well.

Finally, there is work being done at the University of Southern Mississippi on nylon 1313. This product is a lightweight, water resistant polymer that has potential applications for automobile parts, computer circuitry, et cetera.

The final point I would make, sir, is that we have almost $5 million in small business innovative research. This program involves very small operations. They are enormously successful and impacting. I think goalwise we are on the same wavelength.

Senator KERREY. I quite agree with the goal. The words are all there and the goals are all there, but I have to go back home and answer to innovative producers that have their own laboratories—and again for emphasis—and who are very supportive of the land-

grant institutions, very supportive of what CSRS is doing, and very supportive of what ARS and Extension are doing.

They are not hostile to the general goal. They think it all looks good on paper, but they are not going to be able to take part in or contribute to the advances. They look at the budget, and they say apparently if I were bigger and already established then I could get some assistance. If I had a large operation generating a lot of waste, then I could benefit from the $1 million for the research to try to figure out how to become more efficient; but because I am just starting this project the opportunity is not there.

Senator BURDICK. Senator Adams.

INTERNATIONAL TRADE CENTERS

Senator ADAMS. I have just one set of questions I wanted to shift over to: the reason why the administration has in effect zeroed out the international trade centers.

I think it goes without saying that if it had not been for the research and the development of particular products, in our area timber products for one and some of our farm products, that the trade deficit would have been far worse.

Given the importance of exports, why has the administration again decided to zero out funding for the international trade centers? I mentioned CINTRAFOR particularly at the University of Washington and IMPACT at Washington State University.

Dr. JORDAN. Those are both very successful operations, as you well know, Senator. I think the basic question is one of what type and how many international trade development centers are needed.

A year ago we did some work with Mr. Whitten, who put an investigative staff on the House side, sir, to examine this in terms of characteristics and priorities that ought to be set. That report has not yet been published. We would like to work with the Congress in setting what criteria one might use, because I think there is a need. However, it is not clear how many there should be, how they should be developed, and what should be their focus. If we could work with you on that, sir, we would like to.

Senator ADAMS. We would like to because we have had a depression for some period of time in our timber exporting industry, particularly among the smaller mills and the smaller operations that are trying to shift into new products, cabinet making, hardwoods, furniture, and a whole series of things. We are shifting our supply, which ties right into the Forest Service and forest management problems.

If these services are not available for those smaller groups, than they are unable to develop both the marketing techniques and the development of those products. We do, therefore, want to work with you on these. We are not interested in having things that are not practical, but these are small industries in small towns that are cut off from supply now. So we do want to work with you on that.

Dr. JORDAN. You have made a very good point with respect to another one of your programs, the Desmond O'Rourke IMPACT Program. It does the same thing in fruits and vegetables.

Senator ADAMS. Absolutely. We would not have had a lentil export or a pea export operation if it had not been for the development centers like these. I know you are well aware of this. They

are terribly important to us in a variety of crops, not just the major crops.

Dr. JORDAN. One of the things we hoped would be one of the key criteria, Senator, that you and your colleagues may wish to consider is should we be looking at the marketplace in terms of, for example, the Pacific Rim. I will use your State as a focal point. Rather than say what we have produced in excess that we need to sell but, let us look at what the consumer in the Pacific Rim countries of Japan, China, and so forth want that we ought to be growing and producing in the agricultural arena.

Senator ADAMS. I can tell you from experience with those Pacific Rim countries, most of them are mercantile countries and they will buy what they want and not what we have in excess.

Dr. JORDAN. That is exactly the point, Senator.

Senator ADAMS. Thank you, Dr. Jordan.

Thank you, Mr. Chairman.

Senator BURDICK. Senator Harkin.

WATER QUALITY

Senator HARKIN. Dr. Hess, I had a couple of questions I wanted to ask in terms of some studies that are being done at Iowa State University. Over one-third of rural Iowans now drink water from wells at high nitrate levels or detectable levels of pesticides. At Iowa State University Dr. Blackburn has developed an early spring soil nitrogen test which allows farmers to adjust their fertilization application. However, more research is needed to calibrate the test to suit conditions in other States and soil conditions.

I am afraid the Department may be lagging in developing these kinds of environmentally and economically sound practices and getting the information out to farmers.

What is the Department planning to do to take a leadership role in helping to develop these technologies and practices that protect water quality and help make them available to farmers?

A followup on that is what are your plans for developing strategies for the management of agricultural nitrogen such as for the development of the ISU soil test and dissemination of information about it?

Dr. HESS. Thank you, Senator Harkin. Of course, the whole focus of the water quality initiative is designed to address the problems and challenges of water quality, including a collaborative effort not only with our agencies, the Agricultural Research Service, the Extension Service, the Cooperative State Research Service, Forest Service, and the Soil Conservation Service, but even with other agencies such as EPA and the U.S. Geological Survey.

NITROGEN LEVEL TESTS

I think we are making progress after the first year's operation of determining, for example, that corn hybrids vary in terms of the amount of nitrogen uptake and that using tissue tests as a method of determining nitrogen levels is better actually than the soil tests because of the fact that then you know exactly what the plant is doing and can base the application accordingly.

We are looking at different methods of applying nitrogen fertilizers using some which are released slowly so they can be available throughout the growing season rather than being applied in the spring and then some of which is lost——

Senator HARKIN. What size would that corn plant be when you took a tissue sample?

Dr. HESS. This would be late in the season, and so it would be near full growth.

Senator HARKIN. You do not put nitrogen on then, however.

Dr. HESS. The strategy would be, rather than putting all the nitrogen on at the beginning of the season, to apply it throughout the growing season to achieve the supply at the time at which the crop could benefit.

Senator HARKIN. How are you going to put the nitrogen on when you have a 7-foot cornstalk out there?

Dr. HESS. One method is by using the slowly available nutrients so that they would be gradually released.

Senator HARKIN. So it would be something in the soil that would be released over a period of time?

Dr. HESS. Encapsulated, yes.

The point is that there are a wide variety of projects being carried out under the Water Quality Initiative to determine the optimum application for different soil types and different crops.

In terms of delivering that technology, Cooperative Extension, of course, is playing a very key role in providing that information, packaging that information in a form that would be useful to the growers.

Senator HARKIN. Now again, you are focusing less on the soil test and more on this tissue test, I guess?

Dr. HESS. This is just one example, but I agree that there has been evidence that the soil testing is critically important. In fact, there was an article in the popular press just this last week stating that it could be that there is a fair reservoir of nitrogen in soils and that you could actually get crop yields that would be profitable but which use less nitrogen based upon more accurate soil tests.

Senator HARKIN. So you are saying the ISU soil test is just one part of a whole bunch of different things you are looking at right now?

Dr. HESS. Correct.

Another example——

Senator HARKIN. Excuse me. Before you go on to the other example, there are immediate things that can be done right now in the Water Quality Improvement Program, soil testing being one of those, that yield to the farmer initial information right away as to whether or how much nitrogen they need from the beginning.

Dr. HESS. Exactly.

Senator HARKIN. I am not certain how far along this tissue test is and how far along the research is on encapsulating nitrogen in a time release type of thing. I do know how many years away you are from that, but there is something you can do right now with the soil test that they have developed at ISU.

Of course, it is good for different soils in and around Iowa but probably not too good for Illinois and Indiana and places like that.

That is where I think your shop would come in to spread that out and disseminate that information in other States.

That does not mean that if you came up with this time-release capsule later on that that would not be even better.

Dr. HESS. I agree with you. The Water Quality Initiative is funding a range of activities and extending a range of information, trying to optimize the information that is already available and putting it to use as well as doing other research that could be used later on as we get more information such as I have just described.

Perhaps Dr. Johnsrud would like to tell you a little bit about some of the information delivery systems through Cooperative Extension.

WATER QUALITY GRANTS

Senator HARKIN. Before you get to that, though, in terms of delivery systems—and this is part of the last part of my questions—I understand the Department has decided it will not provide research grants to private groups and individuals for water quality projects.

We have a group in Iowa called the Practical Farmers of Iowa and others who are really doing a great job in developing practices that protect water quality. Why should they not be eligible for research funding if this is part of this dissemination about which you are talking?

Dr. MUSSMAN. Thank you, Senator.

The correspondence that we received several weeks ago which was signed by a number of your colleagues raised essentially the same concern regarding the interpretation, at that time, that there were no funds available to those private organizations that had not heretofore been eligible under the grant arrangement.

There were conflicting pieces of language both in the farm bill and appropriations during the last year. We are in the process at the present time of clarifying that regulation. We have a mechanism in the interim to entertain proposals by private organizations who are supporting sustainable research or have as their high-priority water quality or other environmental issues.

I think the issue which may have been identified was one of history rather than one of current constraint on their eligibility for these kinds of programs. I think they have been satisfied fully with the correspondence.

TECHNOLOGY TRANSFER

Senator HARKIN. Thank you. I appreciate that.

Did you want to talk about what you are doing in dissemination of the information?

DEMONSTRATION SITES

Dr. JOHNSRUD. Briefly, Senator.

As part of the Water Quality Program there is one part that is as old as the education business of Extension and that is demonstration sites. We have currently 16 of these in the water quality area, and one is in your State. The purpose of the site is to make

available these various types of technologies, strategies, and farming production systems.

As you know, farmers learn from one another what to do, and the whole idea of these is to take the latest research and the good sound environmental practices of current technology, and apply it to these kinds of settings. It is in these settings that we can then do practical applications and testing.

One element that I would mention that is often overlooked, is the contribution that animal waste has to the nitrogen supply. Extension is doing some work in that area, and the demonstration sites would again be an example of that. I really think we have underestimated quite dramatically the contribution of animal waste to nitrogen.

We do have some pretty good onfarm laboratories. Of these 16 sites, the first 8 were funded a couple of years ago, and they are up and running. The next 8 are coming on line right now. So we have a pretty good feel for it.

NEW PRODUCTS

Senator HARKIN. One last thing on new products. I have had a long interest in developing new products from plants or developing plants that provide different kinds of products. I tried for about 4 years to get a bill through here and finally coupled it with a proposal by Senator Conrad from North Dakota called the Alternative Agricultural Research and Commercialization Act. It was made a part of the farm bill in 1990. It went through a number of modifications and changes over a 4-year period.

Quite frankly, I think a lot of support came because there was a belief by many that USDA has given new product development a very low priority, and I am just saying that is a feeling or sense around here.

Your March 1 letter to me also gives me the feeling that new products might continue to receive a low priority. Again, there is a hopeful sign, though, Mr. Chairman; that is, Congressman Madigan was one of the chief proponents of this when he was on the House side. I am sure that he will be approved very soon, and we may see greater emphasis here.

Correct me if I am wrong. I interpreted from your letter that it would continue to receive a low priority and that your letters seemed to imply you did not intend to spend funds in this area once they are appropriated and that you are not moving forward to establish the AARC board.

Can you address yourself to that, why you are not moving forward to establish the AARC board, why you feel you do not intend to spend funds even if they are appropriated?

Dr. HESS. Senator Harkin, the issue is two-fold. One is that if funds are appropriated, we will use them according to the direction from Congress. If you interpreted my words to say that, that was not the intent.

Senator HARKIN. I am glad you cleared it up. Thank you.

Dr. HESS. Second, as I was pointing out to Senator Kerrey, we do support new product development, and the debate we have gotten into is one as to where the Federal role stops and the private role begins in this commercialization picture.

We are fully supportive of new product development, and we have given examples. Dr. Plowman has new products of research which he has provided to each of you that have the potential for developing new industries.

We need to work together and work with Secretary Designee Madigan to resolve a philosophical difference of exactly where we are in terms of the Federal role and where the private sector begins. I think that the issue of whether to provide grants to the private sector to commercialize their product is the part over which there was concern, that of going too far.

I hope that by working together we can achieve what I view as being a mutual goal. We believe very much in new product development. In fact, in the National Research Initiative this year, we are very pleased that there is $4 million in new product development that was not funded last year, so that is a step forward.

Senator HARKIN. Are you moving ahead on the AARC board?

Dr. HESS. We are not, sir, until funds are appropriated for that purpose.

Senator HARKIN. Do we have to have specific funds appropriated for it?

I stand corrected. I guess we do have to specifically fund it. But if it were, you would move ahead with it?

Dr. HESS. Yes, sir.

Senator HARKIN. I understand where one ends and the other takes off in terms of commercialization, but it seems to me reasonable people could work that through. That is what the AARC board would be involved in in trying to help decide those kinds of questions.

Thank you very much.

Senator BURDICK. Senator Bond.

STATEMENT OF SENATOR BOND

Senator BOND. Thank you, Mr. Chairman. It is a real pleasure for me to be able to join you and the members of this committee. I apologize that other meetings I had this morning went into the afternoon, and I was, therefore, late. I would say that this panel today offers some of the most exciting and challenging things that are going on in agriculture. I welcome the opportunity to review their testimony in writing.

I would express my view that while we have seen the American farmer become one of the most productive in the world, at the same time for good and sufficient reasons we are cutting back on the tools that are available for the American farmer. We recognize the competing demands of the environment are extremely important, and new health concerns mean that some of the things that used to be standard practice can no longer be standard practice, nor should they be.

As this list of available tools grows shorter and shorter, the list of demands on our farmer grows longer. There are continuing and growing questions that must be answered by Federal regulatory agencies, environmental concerns and consumer concerns. As a result, there are areas where we must provide Federal support through effective research and regulation. Biotechnology, for example, which offers us an opportunity to develop a whole new range

of tools, can be extremely effective. I trust that on this committee we will be addressing those needs both from the research and the regulatory end.

I come to the committee as a very strong supporter of the competitive grants and the National Needs Fellowship Program. In our State we have seen how important they are, and we know they must be one of the highest priorities for agriculture in this country.

I have a particular interest in food safety. Senator Pryor and I have proposed legislation, and now we need funding for research that can make us even more capable of assuring the consumer that while we have the safest food supply of any nation in the world, we can do more.

I also share the strong commitment of my colleague from Iowa. I was a cosponsor on the development of alternative crops. We want to see new crops and new uses, which I think have tremendous potential for agriculture and for all of us who depend on agriculture.

REGIONAL RESEARCH PROGRAM

Having said that, I would like to turn to a couple of areas of questions. First, for Mr. Jordan, in Missouri our farmers are very much concerned about the tremendous amount of acreage that will be coming out of CRP in the not-too-distant future. In the last farm bill we requested USDA to begin the study of what could and should happen to this land when it comes out.

Under the regional research projects where land-grant colleges cooperate in joint research efforts, I wonder if it is possible that USDA researchers could work with university researchers in developing a regional project, and, if so, is there a need for additional congressional support to come forward with a good, solid proposal on what our alternatives ought to be and what options we might have for the CRP land.

Dr. JORDAN. Senator, there are already some projects that do address fragile lands. You have suggested the ideal mechanism, and it is ideal for several reasons. Not only can a number of States in a region participate, but the experiment stations from other States that have common interests or an ability to contribute can also participate, as can the Agricultural Research Service, the U.S. Forest Service, the Extension Service and any other agency of government, State or Federal, that has a role to play in it.

The funding is already vested. That is one of the reasons why the modest but very significant increase in the Hatch funds is critical for fiscal year 1992. Twenty-five percent of those funds, Senator, must go to regional research programs. Actually, it ends up being a larger percentage than that.

Remember, sir, your experience as a governor where you found that there were large amounts of State funds that go to regional research projects, so you can leverage those dollars. It turns out that 3.8 times as many State dollars go into such a program as Federal dollars.

You have picked the ideal mechanism, Senator, and we will be about it quickly, to answer your question very specifically and pointedly with your interest in Missouri.

BIOMASS FOR ALTERNATIVE FUELS

Dr. HESS. Senator Bond, could I also address that?

In discussions with the Department of Energy in terms of providing biomass as a source of alternative fuel, one of the areas in which they are very interested in is the use of cellulosic materials as being that source.

It seems to me that provides quite an opportunity because it would mean growing grasses on fragile CRP lands. You could do it in such a way that you would not have problems of erosion and so forth, but yet you would have a marketable commodity that could bring income as well as addressing an environmental concern in terms of reducing CO^2 gas into the environment, as well as energy security.

So this is a possibility that I am sure the regional committee could look at and see if, in fact, it is economically feasible both from the standpoint of energy production and economically feasible for the farmer.

Senator BOND. Dr. Hess, I appreciate your raising that. You may be familiar with Northwest Missouri State and their biomass project for energy. We look forward to working with you on that.

Dr. Jordan, I certainly appreciate your kind words. Our foods for the 21st Century Project at the University of Missouri has provided us an opportunity to begin work on a number of the projects for the future.

BENNETT LEARNING CENTER

I might follow up, since we are speaking about Missouri's specific concerns. You were asked last year to take a look at the Bennett Learning Center at Lincoln University in Missouri, one of the 1890's institutions. Obviously, one of the goals is to attract, train, and graduate high-quality individuals in agriculture and related sciences, and I wonder if you have or you could supply to me your findings on reviews, any suggestions you have for improvements in the operation of the Bennett Center.

Dr. JORDAN. Senator, the site visit was accomplished on December 12, and it fully involved President Rayburn as well as a range of leaders from the State and from the university. The team found that the project focused on the renovation of existing university facilities. Instead of tearing them down and starting all over again, use what you already have to serve as a center to enhance Lincoln's efforts at attracting minorities and women to careers in food and agricultural sciences and to provide an improved forum for student and faculty interaction.

As you well know, Senator, that is a well-integrated institution. So we are talking about, not just minorities living in the facility but the totality of the student body having access to that facility.

The requested $2.9 million from USDA to assist in the renovation is a goodly figure, but the university is in the process of raising the matching funds.

You are probably also aware, Senator, that there was some concern within the State about whether as a historic site the building could be renovated. I dispatched an associate administrator. He never had to enter the State, because as soon as it was known that

he was coming for that purpose, all of a sudden the impediments seemed to fall away quickly. I think we are making headway on it.

The program fits well with the USDA's priorities of addressing ethnic and cultural diversity in the Nation's higher education system and in the U.S. work force. The creative approach that has been demonstrated here and the long-term success of programs depends on the State's willingness and ability to provide stable support so that the Center can grow. The report has been forwarded to the Congress for your evaluation, Senator.

SOYBEAN CYST NEMATODE

Senator BOND. Thank you very much.

Another area in which we have a great deal of interest is research on the soybean cyst nematode. Obviously we are doing a great deal of work in southeast Missouri at the University of Missouri Delta Center.

Have you found any breakthroughs there? Are there any other agencies working on it?

I would address that either to you or Dr. Plowman.

Dr. JORDAN. We have a special grant project, as you know, Senator, and there have been a number of breakthroughs including modification of the breeding of the cyst nematode itself. So I hope you do not find us into sex, Senator, but we are using that as one of a number of techniques to try to control the cyst nematode's reproduction.

Senator BOND. Any dirty tricks are quite appropriate. [Laughter.]

Dr. Plowman, did you want to add to that?

Dr. PLOWMAN. Yes; I would like to comment that ARS does have a rather active program in trying to control the soybean cyst nematode. We have no projects at Missouri, but we have them at Gainesville, FL; Urbana, IL; Beltsville, MD; Stoneville, MS; and Jackson, TN. We are spending about $655,000 on that problem. We recognize it is a serious problem, and we are looking at all kinds of ways to ameliorate the problem.

Senator BOND. Is the program zeroed out in this budget?

Dr. PLOWMAN. It is not zeroed out in ARS' budget, not by any means.

DELTA CENTER PROJECT

Senator BOND. Is the Delta Center project zeroed out?

Dr. PLOWMAN. Pat, you would have to respond to that.

Dr. JORDAN. That special grant does not show up on the priority list for fiscal year 1992. That is correct, Senator.

Senator BOND. There are some of us who think it should, so maybe we will address that later and have further discussions about that.

Well, Dr. Plowman, I would say we certainly appreciated our visit and the information you have provided us. I have already talked with you about the high priority we place on the cooperative research efforts between the Federal Government and the universities.

MISSOURI SPECIAL GRANT

I was a bit concerned to see that we received no recommendations for the University of Missouri, their food, safety and biochemistry programs. Frankly, those are right in line with what Dr. Jordan mentioned as the tremendous impact we get when we have State-supported programs matching with Federal programs. This is an area where we have done a great deal of work at the State level, and I wonder if there are any particular problems that we need to overcome to achieve the funding of those projects.

Dr. JORDAN. Senator, there is no problem. That is a good and sound project. It is a matter of the priority system, and we have sent to you what we think are the top 26.7 million dollars' worth of special grants that we would like to have funded, recognizing you may wish to add some on top of that.

Also, in the National Research Initiative there are opportunities in the expanded program with an added $50 million, Senator, to take care of many of those needs. Particularly in the area of food safety and nutrition there is a boost from the current modest level of $4 to $13 million in fiscal year 1992.

Senator BOND. $13 million?

Dr. JORDAN. Yes, sir.

PESTICIDE APPLICATOR TRAINING

Senator BOND. That is certainly a modest enough figure, I would think. It should not be too much of a problem.

I might ask Dr. Johnsrud, one of the things we are concerned about as we talked last year was about making sure that farmers were well equipped and well educated on handling restricted pesticides. Have we talked in the Agriculture Committee about the need to broaden that educational effort to make sure that there was more education for handling all kinds of chemicals, fertilizers, and other things in addition to restricted use? What kinds of programs are you developing? Do you have any new initiatives in this area for educating farmers in the use of all kinds of chemicals?

Dr. JOHNSRUD. Yes; one of the changes we have made in the past 3 or 4 years is to try to identify besides our base program what we call high priority national initiatives.

One of those is under the rather broad frame of sustainable agriculture, but encompassed in that is a very definitive and very intense effort to help farmers decide the best use of external inputs in terms of economics and environmental considerations. That area is getting a lot of attention throughout the United States in all the farm production areas.

In addition, of course, there is a low input sustainable agricultural program in which we work in concert with the CSRS, and that has many projects out.

Third, the water quality project places considerable emphasis upon good, sound environmental and economic use of various inputs. Besides that, of course, we have the pesticide applicator training program, which is directed specifically at those users and dealers that are dealing with restricted use pesticides. Those are examples.

Our effort has increased quite dramatically in the past 2 or 3 years in many, many areas of our programs. It really encompasses most of our agricultural focus programs.

WATER QUALITY INITIATIVE

Senator BOND. We are very frequently asked questions and have a very real concern about what is going on in water quality. Many farmers and many rural residents raise that question. I know it is an extremely diverse and complex question.

Is there a short guidebook or a description, a menu which you could share with us that would help us understand and convey to others the totality of the water quality efforts? Senator Harkin raised it, and it has just been mentioned here.

Now there are a lot of things going on in water quality. Where is the best place to find the overview on it?

Dr. HESS. Right to my left, Senator Bond. Dr. Mussman has the lead role in the Department for coordinating the water quality initiative. Let me ask him to answer your question specifically.

Dr. MUSSMAN. Senator Bond, as you know, about 14 or 15 months ago the Congress appropriated funds for the water quality initiative announced by the President at that time. We have had limited time, as I say, 14 or 15 months, to accomplish very much. However, even during that short period, there have been some substantial results beginning to show up. Dr. Hess made reference a little while ago as to the kinds of things that are emerging as a consequence of research or in the actual demonstration sites to which Dr. Johnsrud made reference and in the evaluation process where we are beginning to put it all together, but what does it really mean to us?

For the early stages of this program during calendar years 1990 and 1991, we have been focusing on State priorities, working with the individual States to determine what watersheds needed attention most greatly. As a consequence, the 16 demonstration sites and the 74 hydrologic units which are currently either in operation or about to be started during this calendar year have been distributed rather widely across the country based on what were the most pressing problems from the State standpoint.

We have been thinking, however, that after 2 years of that approach we might be well advised to take another look at how the watersheds ought to be selected. This is based on findings by the USGS where they find high levels of pesticides being leached through the surface waters particularly in the upper Midwest and the results of the EPA well water survey just 3 months ago in which they found high levels of nitrates. I should say, high incidence of nitrates, although not at very high levels within the wells but widely distributed through a great part of the country and that perhaps, we should focus more clearly on where the problems are.

So from this point forward as we keep the current distribution of watershed programs in place, we will be looking at ways to complement those by dealing with others which are more of a hot spot designation and where nitrates or pesticides have clearly been a key problem like in the upper Midwest, the Great Plains, and in the southeastern coastal zone.

By and large, the program has been performing well, and I cannot say enough about the cooperative role that we have enjoyed on the part of EPA and USGS, TVA, Corps of Engineers, and NOAA.

Dr. HESS. Also, you publish a newsletter.

Dr. MUSSMAN. We publish a rather short, one-page newsletter that we would be happy to supply you with and, in addition to that, periodic bulletins which are somewhat more detailed in the nature of the information. There were several published in the past year. We would be delighted to make those available to you.

Senator BOND. We have received those, and I look forward to continuing to receive them because I think it is obviously a project of great interest to us as well.

Mr. Chairman, I apologize for the length of the questions. I appreciate your indulgence.

AGRICULTURAL USES OF GYPSUM

Senator BURDICK. My first question will be directed at Dr. Plowman. You request an increase of $2 million for research on agricultural uses of gypsum. This is one increase with which the Users Advisory Board does not agree. What is the potential for using gypsum in agriculture?

Dr. PLOWMAN. Well, that is one of the purposes of research, to find out what use we might make of that product. As the Clean Air Act is implemented, there is going to be tons of this material as a byproduct from using coal. It is going to be very difficult to dispose of it. Our thought there is to make some useful purpose of it which would serve everyone's interest. So we will be looking at it as a soil amendment and see how we might incorporate it into land management programs.

MC INTIRE-STENNIS PROGRAM

Senator BURDICK. Dr. Hess, over the last several years the budget submissions have proposed increases in formula funds under the Hatch Act Program, the Evans-Allen Program, and the Smith-Lever Program. However, you consistently request a sizable decrease for the McIntire-Stennis Cooperative Forestry Research Program.

Given your penchant for promoting a State-Federal partnership for these other formula fund programs, why do you not support the forestry research?

Dr. HESS. Senator Burdick, we would actually like to see the McIntire-Stennis Program grow as well as the Hatch, Smith-Lever, and other formula programs. We have not been successful so far in convincing all members of our partnership that this should be so.

We would hope that in future years we can increase the level to at least that which was provided by Congress last year or eventually get it to the level that Congress has authorized for the McIntire-Stennis Program. We view the forestry research as being very important. Forestry is facing many competing needs these days as a source of clean water, a habitat for wildlife, as well as an important source of wood products and jobs for people in many States who have timber as a primary source of income.

To achieve all three—that is, produce timber, clean water, and habitat for wildlife—is a major challenge, and we see important investments could be made there. Again, we also see that in the national research initiative there are funds which support the forestry research area. In fact, the National Academy of Sciences has published a report on forestry research, and the forest community has looked at that report and looked at the opportunities contained in the national research initiative and have decided to join with us in supporting the national research initiative and the proposed increase in funding that has been recommended to bring it up to $125 million.

As you look at plant systems, as you look at the environment and natural resources, as you look at new product development, which are three of the six areas in the national research initiative, each of these is important for the forestry area. Many of us would also like to see the formula funds increased consistently with that. Unfortunately, given the budget constraints, it was not possible to achieve that in this year's budget proposal.

Senator BURDICK. In other words, it is budgetary reasons, in your opinion?

Dr. HESS. Yes, sir; of the numerous priorities that were set and with the funds that were available, we were not able to provide the increase in the McIntire-Stennis Program that we had hoped for.

SPECIAL RESEARCH GRANTS

Senator BURDICK. In light of your perennial proposal to eliminate special research grants, it would be helpful to us if we could tell groups seeking special research funding that they should apply for competitive research grants, especially in view of the increased funding for competitive research grants. However, it has come to my attention that the regulation for the competitive grant program stipulates that no group should receive a special research grant.

Is this true? If so, what is the justification?

Dr. JORDAN. Senator, the competitive research grants are open to everyone: land-grant and non-land-grant universities; private laboratories; Federal laboratories; and individuals. It is a mechanism of choice in terms of opening the opportunities to everyone.

What has traditionally been the case is that the regulations governing the special research grants program have constrained those historically to land-grant institutions or other institutions of higher learning; not Federal laboratories, nor private ones. We are going through the process now, Senator, to amend those regulations in order to open up the special grants program to private organizations.

Senator BURDICK. Can a group receive a special research grant and apply for a competitive research grant for the same or similar purpose as a special research grant?

Dr. JORDAN. Yes, sir; they can. However, they must indicate other funding they have at the same time they submit their competitive proposal so that the panel that reviews the competitive grants knows exactly what additional funding is available. A person may receive a grant from both programs provided there are two proposals with clearly and distinctly different objectives even though they are related to a similar research area.

YOUTH-AT-RISK PROGRAM

Senator BURDICK. I have heard good things about your Youth-at-Risk Program and commend you for your efforts in this regard. I understand you plan to spread the money for this year among 50 different communities.

Can you give us examples of the kinds of programs you will fund?

Dr. JOHNSRUD. Mr. Chairman, as the Secretary has stated, an excellent set of proposals from the States came in for these funds that were appropriated by Congress last year. We had 119 proposals submitted, and they focused on three or four major areas. One is to enhance the educational experience of kids in the public school system and to do what the public school system is not doing relative to the learning and development of young people.

I do not want to get into the detail, but they are also working with other organizations in the community to enhance the after-school opportunities for youth in terms of education and development experiences.

The bottom line is that we funded 69 projects this year. We were able to fund more than we indicated because of the matching funds from within the States. Plus, we have a continued interest from the private sector. As indicated, the W.K. Kellogg Foundation has provided $5.926 million to help with this program. This was being planned last year as we presented our budget to you.

The projects have just been excellent, and we are pleased with the program at this point.

Senator BURDICK. What is the amount of private contributions you received to match the initial $7,500,000 made available for this year?

Dr. JOHNSRUD. The largest amount was from the W.K. Kellogg Foundation of $5.926 million. In addition, we tentatively have another $1 million from another outside organization. These are at the national level, and there may be some others with some interest at the local level.

At the State level, there are a number of organizations that have provided resources of money and people, in support of the program. We could probably get more details on that for you, Mr. Chairman, if you wish, but organizations have really stepped forward in a very fine fashion.

Senator BURDICK. Well, we may contact you again in that regard.

Are applicants required to provide matching funds in addition to these contributions? If so, in what amount?

Dr. JOHNSRUD. The funding request on the 119 proposals totaled $14 million, almost double what we had available. These proposals indicated they had $17 million in matching laid against that $14 million, and so they really exceeded a one-to-one on what they proposed before we even took action on the proposals.

We encourage and support that it does not have to be just dollars. It can be facilities or staff from other organizations. We have a broad base of the type of matching, and to my knowledge that has not been at issue in the proposals that were submitted to us.

Senator BURDICK. I get the impression this is a good program.

Dr. JOHNSRUD. We think it is, and we are looking forward to it even being better thanks to the support that you have already provided.

One thing, I cannot help but comment, and you probably know this. We have had tremendous support from a wide sector of business, agribusiness, corporate business, community leaders, mayors, and educators. It has been really a broad-based support. We hope to live up to and exceed all the expectations we had for this program.

INDIAN RESERVATIONS

Senator BURDICK. Now let us go to Indian reservations, shall we. For this year, $1 million was appropriated for Indian reservation agents. What is the agency doing with these funds? How many reservations will you reach, and how many agents will be provided?

Dr. JOHNSRUD. In accordance with the appropriations and the intent of Congress, we involved the tribal leadership around the Nation in developing a set of guidelines and requesting proposals. We received 57 proposals totaling almost three times the amount of available funds. We have two categories of proposals. One is for staffing of agents on reservations and a small amount of money for special projects in support of educational programs for native Americans. We have a nice set of proposals in each case.

Those proposals were due on February 15, and we are in the process of analyzing those proposals in concert with the tribal leadership, in accord with the intent of your committee when you set forth the appropriations. We are working very closely with them, and it looks like we will be funding six to eight reservation agent positions with these funds under the first allocation. That is very acceptable to the tribal leadership in terms of what they think is an appropriate number with these funds.

Senator BURDICK. I hope you have not overlooked those four fine reservations in North Dakota.

Dr. JOHNSRUD. I think you will see one of those on the list, Mr. Chairman.

ALTERNATIVE FUELS

Senator BURDICK. I am intrigued by your proposal to do research on biofuels. We have been experimenting with ethanol, methanol, and the other alternative fuels for some time now.

What new research will your proposals entail?

Dr. HESS. Part of it is to increase the efficiency of ethanol production. Currently, the goal from the Department of Energy is to get the cost of ethanol down to about 60 cents per gallon. Part of this can be done by using genetic engineering or biotechnology to create organisms that have the ability to break down cellulose into sugars and to convert the sugars into ethanol. That is a feasible project, particularly if we are going to be using cellulosic materials as part of the source of the biomass. This would mean that in addition to sugars, we could use the whole corn plant, for example, or grasses as a source of energy.

Another challenge we are facing is the separation of the ethanol once it is produced. Currently we use distillation techniques which

require a lot of energy in itself, and so you almost have a zero sum gain in terms of energy production. There is some hope that perhaps membrane filtration will provide an alternative to separating the ethanol from the liquid after fermentation.

So those are a couple of ideas we wish to work on, the organisms that produce the ethanol and then separating the ethanol more efficiently in order to reduce the cost in terms of production as well as energy efficiency.

Senator BURDICK. Any other questions, Senator Bond?

Senator BOND. We may have one or two questions after we look at the record later on, but I think the general questions have been covered very well.

SUBMITTED QUESTIONS

Senator BURDICK. Thank you for your testimony. Additional questions will be submitted for written responses, and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

AGRICULTURAL RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

BIOFUELS

Question: I am intrigued by your proposal to do research on biofuels. We have been experimenting with ethanol, methanol, and other alternative fuels for some time now.

What types of agricultural products will be used in the research?

Answer: Agricultural products to be used for ethanol fuel are cereal starch, agricultural residues, food processing wastes, certain grasses and rapidly growing woody plants. For diesel oil substitutes the focus is on various vegetable oils: for example, soybean, sunflower and rapeseed.

Question: Are you coordinating with other research projects around the country on alternative fuels? Which projects?

Answer: The chief coordination is with the Department of Energy (DOE). A USDA-DOE Biofuels Initiative has been set up via a memorandum of understanding. A joint collaborative program will emphasize complementary strengths of the partners: initially ARS is developing bioprocesses not only for ethanol but also for other fermentation chemicals (as co-products), based on cornstarch, agricultural residues and food processing wastes. DOE has focused on woody biomass production and conversion to ethanol and methanol. ARS also has an active program on vegetable oils as diesel substitutes: biodiesel research is being conducted at the National Center for Agricultural Utilization Research, Peoria, Illinois, while engine testing and emissions research is supported by ARS at the University of Idaho.

GYPSUM

Question: You request an increase of $2,000,000 for research on agricultural uses of gypsum. This is one increase with which the Users Advisory Board does not agree.

What is the potential for using gypsum in agriculture?

Answer: The 1990 Clean Air Bill requires that most of the sulfur oxides be removed from the exhausts of coal fired power plants. This is generally accomplished by reaction of these oxides in the fire boxes or in the flues with lime, which will result in the deposition of about 100 million tons of gypsum per year when the provisions of this bill are fully implemented. Consisting of calcium and sulfate, gypsum can be used as a fertilizer in areas where these nutrients are deficient. However, since it is commonly precipitated with the other ash constituents at power plants, amounts of micro-nutrients and other trace elements in the accompanying ash need to be determined to assure that only beneficial and nontoxic amounts of the accompanying trace elements are applied. In the eastern, southern, and

midsouthern States, acid subsoils are common in which toxic levels of aluminum and deficiency of calcium are primary factors restricting rooting depths. Applications of gypsum supply the needed calcium, the sulfate helps precipitate the aluminum reducing its toxicity, and rooting depths are increased. Increased rooting depth generally decreases the drought stress on crops.

Gypsum is slightly soluble which, compared to lime, allows it to percolate deeper into the soil. Consequently, surface applied gypsum improves acid subsoils, and helps reclaim sodic soils in irrigated areas. Its slightly soluble nature also allows gypsum to maintain a moderate solute concentration in soil water which is not toxic to crops and keeps soil particles flocculated which increases infiltration rates and reduces runoff and erosion on most soils in the U.S.

Most of the cultivated soils and much of the rangeland in the U.S. could benefit from the ability of gypsum to increase infiltration rates and rooting depths and supply needed calcium and sulfate. The 100 million tons of gypsum per year could all be used for these agricultural purposes. The wide dispersion of over producing plants will help reduce hauling costs to agricultural areas.

Question: Where will this research be conducted?

Answer: This research will be conducted in areas where problems of restricted rooting depths and low infiltration rates, high runoff rates, and erosion provide opportunities for beneficial use of gypsum. The laboratories from which this work will be conducted are located in Auburn, Alabama; Watkinsville, Georgia; West Lafayette, Indiana; Beltsville, Maryland; St. Paul, Minnesota; Oxford, Mississippi; and Columbia, Missouri.

Question: What research has been done to date?

Answer: Applications of gypsum ranging from 800 to 2,000 pounds per acre in Israel, Georgia, and Indiana have more than doubled the water infiltration rates of bare soils and reduced erosion by an even larger factor.

Applications of 50 tons of gypsum per acre in a one inch layer extending about 3 feet on each side of apple trees in Maryland eliminated weed growth, facilitated infiltration in the treated area, and increased apple yields and rooting depths.

Studies in Georgia have shown that applications of six tons of gypsum per acre increased calcium content of soil and rooting depth from about 60 to 100 centimeters and increased yields of alfalfa by about 70 percent.

Computerized crop models developed in Florida and Texas indicate that if rooting depth had been 60 percent greater during the past 20 years, most of the drought stress would have been avoided and yields in the driest third of those years would have doubled at Columbia, Missouri, Holly Springs, Mississippi, and Watkinsville, Georgia.

Significant amounts of boron were found with the gypsum and fly ash at a power plant in Minnesota. Applications of up to 6 tons/acre of this material were particularly beneficial to crop yields on boron deficient soils, but heavier applications reduced this benefit.

Question: Recently, we provided funding for a Pircon-Peck process in Illinois through CSRS. Does this relate to the proposed research? What have been the results of Pircon-Peck?

Answer: The Pircon-Peck process patented by RAM Corporation of Oakbrook, Chicago, proposes the use of calcium phosphate (rock phosphate) rather than calcium carbonate (lime) to react with and precipitate the sulfur oxides in coal fired power plants. The resulting product includes gypsum and acidic phosphorous. Ammoniation of this material can produce a mixture of gypsum and ammonium phosphate. The basic chemistry of this process is sound and further development of a pilot plant is awaiting construction of the building to house that plant at Western Illinois University. Presence of the nitrogen and phosphorous in the product would make this product a good fertilizer, in addition to providing the benefits associated with the gypsum.

The proposed ARS research would complement successful development of the Pircon-Peck process by documenting the benefits derived from the gypsum that would be part of their product. The two efforts will not be appreciably competitive because even if the Pircon-Peck process becomes the best economic alternative and supplies all the phosphate needed on American farms (10,000 tons per year), it will use less than 15 percent of the sulfur oxides produced by our power plants and other industries.

HUMAN NUTRITION

Question: Please provide a summary of ARS' human nutrition research for the last two years showing location, focus and funding level of the research.

Also, for the ARS human nutrition centers, what additional funding needs at each location could be used for them to reach their full potential.

Answer: The focus of research carried out at each of the USDA/ARS Human Nutrition Research Centers is as follows:

Beltsville Human Nutrition Research Center, Beltsville, MD -- Composition of foods and bioavailability of food nutrients required by humans; energy metabolism and energy requirements for weight maintenance; and dietary reduction of risk factors for nutrition-related chronic disorders such as coronary heart disease, cancer, and maturity onset diabetes; human requirements and metabolic roles of carbohydrates, dietary fibers, lipids, zinc, chromium, selenium, vitamin E, and vitamin A; and family economics.

Grand Forks Human Nutrition Research Center, Grand Forks, ND -- Nutritional requirements for zinc, magnesium, boron, copper, iron, and other minor elements and their relationship to optimal health, function, and performance; physiological and biochemical factors influencing minor element requirements in all age groups and biological availability of minerals

Human Nutrition Research Center on Aging at Tufts University, Boston, MA -- Nutritional requirements of the elderly for optimal health, function, and performance; the relationship of nutrition to the aging process; role of diet in the prevention of major chronic degenerative conditions. Emphasis has been given to role of diet on bone health, prevention of cataracts, immune response; and importance of exercise on body composition. The requirements and/or tolerances of elderly for folacin, vitamin B-12, vitamin A, vitamin B-6, vitamin K and vitamin D were studied.

Children's Nutrition Research Center at Baylor College of Medicine, Houston, TX -- Nutrient requirements in infants, children, pregnant and lactating women; role of diet for optimum growth and physical and mental development. Emphasis has been on use of stable nonradioactive isotopes as markers in studies related to cholesterol synthesis, energy, amino acids, iron, and calcium requirements for growth of low birth weight infants and lactation in women and utilization of foods by infants.

Western Human Nutrition Research Center, San Francisco, CA -- Development of reliable, efficient, inexpensive methods for measuring food intake and defining nutritional status; effects of marginal nutrient levels on performance and immune function; developing nutritional criteria for evaluation of intervention programs; and conducted research on human nutritional requirements, including omega-3 fatty acids, vitamin C, folacin, and molybdenum.

The funding for each of the USDA/ARS Human Nutrition Research Centers for fiscal years 1989, 1990, and 1991, together with the resources targeted for them to reach their full potential, is given in the following table. Due to the need to limit Federal expenditures, no request for additional funds is included in the FY 1992 budget.

Agricultural Research Service
Human Nutrition Research

Estimated Funds ($ in Millions)

Center	FY 1989	FY 1990	FY 1991	Optimum SY Capacity and Funding
Beltsville Human Nutrition Research Center (Beltsville, MD)	7.31	7.48	7.82	Full staffing capacity of 42 scientist years and $13.5 million.

Estimated Funds ($ in Millions)

Center	FY 1989	FY 1990	FY 1991	Optimum SY Capacity and Funding
Grand Forks Human Nutrition Research Center (Grand Forks, ND)	6.33	6.59	6.93	Full staffing capacity of 24 scientist years and $10 million.
Human Nutrition Research Center on Aging at Tufts University (Boston, MA)	13.35	13.54	13.83	Full staffing capacity of 50 scientist years and $18 million.
Children's Nutrition Research Center at Baylor College of Medicine (Houston, TX)	8.34	9.63	9.91	Full staffing capacity of 50 scientist years and $16 million.
Western Human Nutrition Research Center (San Francisco, CA)	4.01	4.22	4.52	Full staffing of 30 scientist years and $12 million.
Other ARS Human Nutrition Research	2.66	2.67	2.72	

POTATO RESEARCH

Question: Please provide the status of your potato research including the location, funding level for 1990, 1991, and 1992, as well as the purpose of the research.

Answer: The purpose of the ARS research program is to solve major production and marketing problems of the U.S. potato industry. Objectives of this research include increasing production efficiency, reducing use of pesticides, maintaining potato quality in marketing channels, and increasing food safety and nutritional values of potatoes and potato products in the marketplace. The following table shows estimated funding by location for potato research in FY 1990, FY 1991, and FY 1992:

Location	FY 1990 Estimated	FY 1991 Estimated	FY 1992 Budget
Albany, CA (PGEC)	$ 338,700	$ 197,200	$ 197,200
Albany, CA (WRRC)	700,500	944,200	944,200
Athens, GA	38,700	39,300	39,300
Aberdeen, ID	300,500	305,300	305,300
Kimberly, ID	388,200	- -	- -
Orono, ME	257,000	392,700	392,700
Beltsville, MD	2,053,100	2,396,200	2,396,200

Frederick, MD	69,500	57,200	57,200
East Grand Forks, MN	1,162,800	1,180,400	1,180,400
Fargo, ND	- -	83,300	83,300
Ithaca, NY	259,900	263,800	263,800
Wooster, OH	23,200	23,500	23,500
Wyndmoor, PA	869,300	460,800	460,800
Prosser, WA	822,400	834,700	834,700
Yakima, WA	486,700	646,800	646,800
Madison, WI	547,700	556,000	556,000
ARS Headquarters	1,518,100	1,772,900	1,772,900
Total	$9,836,300	$10,154,300	$10,154,300

BUILDINGS AND FACILITIES

Question: It has come to my attention that cost estimates for the National Seed Storage Laboratory in Colorado were actually higher than actual costs. Therefore, you may not need the $1,800,000 contained in the budget for completion of the facility.

Is this correct? If so, has construction been started or when will it begin?

Answer: Bids were opened in early February, and we will be able to award a contract for the construction of this facility this spring. The Department is currently reviewing alternative uses for the savings accruing from the lower cost contract.

Question: For each of the facilities funded in the 1991 Act, or for which a report was requested, list the amount of funding made available to date, the total estimated cost of the facility, and the current status in terms of whether construction is ready to begin or has begun and whether additional funds could be used in 1992.

Answer: The information follows:

Buildings and Facilities

Facility	Funding to Date	Total Estimated Cost	Current Status	1992 Funding
Rice Germplasm Evaluation & Enhancement Center Stuttgart, AR	$223K	$2.0M	Project scope is being developed. Construction is not ready to begin. A contract for planning will be awarded in the first quarter of FY-92.	No additional Funds are needed in FY-92.
U.S. Salinity Laboratory Riverside, CA	$8.95M	$19.2M	Design is complete. Construction cannot begin until total funding is received.	An additional $10.25M is required and has been requested in FY-92.
National Seed Storage Lab Ft. Collins, CO	$12.25M	$12.25M	Construction is ready to begin.	No additional funds are needed in FY-92.
National Small Grains Germplasm Repository Aberdeen, ID	$200K	$200K	Project scope is being developed. Construction is not ready to start. Design will be awarded in the third quarter of FY-91. Construction will occur in FY-92.	No additional funds are needed in FY-92.
Honey Bee Research Lab Weslaco, TX	$2.04M	$3.8M	Design is 15% complete and will be completed by the second quarter of FY-92.	Additional funds are not proposed for FY-92.

Facility	Funding to Date	Total Estimated Cost	Current Status	1992 Funding
Plant Sciences Greenhouse Facility Fargo, ND	$425K	$425K	Project scope is being developed. Construction is not ready to start. Design will be awarded in the fourth quarter of FY-91 and will be completed by the fourth quarter of FY-92.	No additional funds are needed in FY-92.
Northwest Small Fruit Research Center Corvallis, OR	$225K	$2.2M	Project scope is being developed. Construction is not ready to start. Design will be awarded in the fourth quarter of FY-91 and will be completed by the fourth quarter of FY-92.	No additional funds are needed in FY-92.
Plant Moisture Stress Lab Lubbock, TX	$2.5M	$10.6M	Project scope is being developed. Construction of a headhouse/greenhouse will occur in FY-91. Construction of lab is not ready to start. Design of lab complex will be awarded in the first quarter of FY-92.	No additional funds are needed in FY-92.
North Central Soil Conservation Lab Morris, MN	$300K	$4.1M	Project scope is being developed. Construction is not ready to start. Design will be awarded in the fourth quarter of FY-91 and will be completed by the fourth quarter of FY-92.	No additional funds are needed in FY-92.

Facility	Funding to Date	Total Estimated Cost	Current Status	1992 Funding
Agriculture Research Lab Yakima, WA	$7.95M	$13.0M	Design is expected to start in May, 1991 and will be completed by the third quarter of FY-92. Construction is not ready to begin.	An additional $5.05M is required and has been requested in FY-92.
Pathological Incinerator & Animal Necropsy Facility Upgrade Ames, IA	$300K	$4.2M	Project scope is being defined. Construction is not ready to start. Design will be awarded in fourth quarter of FY-91 and will be completed by the third quarter of FY-92.	No additional funds are required in FY-92.
National Center for Warm Water Aquaculture Stoneville, MS	$1.2M	$7.6M	Project scope is being defined. Anticipate the award of pond construction in third quarter of FY-91. Design of lab will be awarded in first quarter of FY-92.	If all ponds are constructed with the FY-91 appropriation, an additional $300K to $400K will be required for design of lab.
Horticultural Research Lab Orlando, FL	None	$27.6M	Land acquisition is being pursued. Construction is not ready to begin.	Funds have not been proposed for FY-92.

Facility	Funding to Date	Total Estimated Cost	Current Status	1992 Funding
Center for Natural Products Oxford, MS	$9.5M ($4.325M in CSRS)	$25.0M	The construction is ready to begin.	Additional funds have not been proposed for FY-92.
Addition to South Central Research Center Lane, OK (Phase III)	$1.74M	$3.74M	Design is 50% complete and will be completed by the third quarter of FY-91.	Additional funds have not been proposed for FY-92.
Horticultural and Water Management Research Lab Fresno, CA	None	$34.0M	Land acquisition is being pursued. Construction is not ready to begin.	Funds have not been proposed for FY-92.
Western Human Nutrition Research Center San Francisco, CA	None	$1.9M	Project scope needs to be planned. Construction is not ready to begin.	Funds have not been proposed for FY-92.

Facility	Funding to Date	Total Estimated Cost	Current Status	1992 Funding
Beltsville Agricultural Research Center Modernization Beltsville, MD	$43.4M	$200M	In FY-91 design and/or construction will be initiated on waste treatment plants. Bldg. 001, Central Hay Storage, Cow Barn, Plant Science Bldg., Range 2 greenhouse modernization.	Additional funds in the amount of $20.0M are required in FY-92 for continued implementation of the modernization plan. The additional $20.0M will be used for construction of Plant Science Building, utility studies, building renovation, new insectary, manure lagoon, consolidated poultry facility, Range 2 greenhouse, infrastructure repairs and demolition of buildings.
National Center for Agricultural Utilization Research Peoria, IL	None	$56.5M	Facilities study and planning is complete. Construction is not ready to begin.	Funds have not been proposed for FY-92.

SUSTAINABLE AGRICULTURE

Question: What amount of funds are being used for sustainable agriculture research in 1991 and what is proposed for 1992? Give some specific examples.

Answer: Funds allocated by the ARS for support of research related to sustainable agriculture in FY 1991 totaled $112,520,000 and $119,520,000 are proposed for FY 1992.

The additional ARS research proposed for FY 1992 which will improve sustainability of agriculture includes:

Research to improve water quality by improving management of cover crops, crop rotations, riparian zones, and wetlands;

Research to utilize gypsum which will be precipitated in coal fired power plants as a result of the 1990 Clean Air Bill to increase infiltration and rooting depths and thereby increase yields in dry years and generally decrease erosion and drought stress;

Research to develop systems and management practices to improve the efficiency with which nitrogen and other nutrients are cycled through animals to plants, and

Research to improve integrated pest management.

PLANT GENE EXPRESSION CENTER

Question: You previously reported that the Plant Gene Expression Center was developing tools for moving foreign genes into corn by using biotechnology. What progress has been made in the development of this technology and what impact will it have on viral diseases of cereal grains, for example, barley yellow dwarf virus?

Answer: We have made considerable progress using improved biotechnology techniques. Stable transformation of corn has been achieved by using microprojectile technology. DNA constructs, plasmids, and other molecular and biological tools have been developed for application to the transformation of barley. DNA constructs have been provided to cooperators at Washington State University for insertion of the barley yellow dwarf virus coat protein gene. Assuming that stable transformation of cereal grains, including barley, wheat, and oats, will be achieved, development of plants resistant to viruses such as barley yellow dwarf virus will be possible.

ALTERNATIVE AGRICULTURAL COMMERCIALIZATION

Question: What is your view of the Alternative Agricultural Research and Commercialization Act of 1990? If funded, will it be useful in the development of new nonfood, nonfeed products?

Answer: We certainly support the objectives of the Commercialization Act. Already ARS has achieved tremendous

success in the development of new nonfood, nonfeed products and in moving this technology to the marketplace. During 1990, we redirected more than $10 million of existing research funds toward the development of value added industrial products from agricultural commodities. More than 20 licenses were awarded to industry for commercializing our technology. We are proud, too, that during the past two years four new business ventures were set up based on ARS licensed technology. We are in accord with the spirit of the Act and believe it should be implemented in a way to assure a market-driven allocation of resources: with the private sector taking the financial and market risk while the federal agency provides innovative technology.

Question: What research resources are being used by USDA for research on new nonfood, nonfeed alternative agricultural products as defined by that act? Please specify the agency and give specific examples.

Answer: To augment funding for research on new nonfood, nonfeed alternative agricultural products, ARS has undertaken a systematic redirection of funding within the five Utilization Centers. This has involved de-emphasizing research on low margin raw bulk commodities (increasingly available from a number of nations) in favor of work on value-added product technology: during 1990, approximately $11 million was re-allocated. This has resulted in a total research fund of $26.3 million for new nonfood, nonfeed products (excluding cotton fiber research). Examples are the conversion of starch to bioplastics, to encapsulating agents for pesticides, to biofuels and fermentation chemicals, to biological control products as substitutes for chemical pesticides, to biodetergents and to novel aerogel structural materials. Soybean oil is another example: ARS technology has permitted the replacement in printing ink of 400 million pounds of petroleum per year by a formulated soybean oil based vehicle.

The Forest Service has a multi-faceted program under its Forest Products and Harvesting Research Budget Line Items aimed at commercialization of wood products. Of the total research funding in this area, $5.5 million would qualify under the terms of the act. Examples are: energy from wood, tannins from tree bark, adhesives from lignin, naval stores and production of enzymes for cleaning up contaminated soils.

New nonfood, nonfeed products and processes research in CSRS is estimated at $6.8 million for FY 1991. This research includes a wide array of projects, among which are nonfood by-products of food crops, fuel crops, nonfood animal products, quality maintenance, textiles, and market development. That portion attributed to new crop research and development i.e. crambe, rapeseed, guayule, jojoba, and kenaf, is $2.3 million.

Question: What resources are being used by USDA to promote the commercialization of new nonfood, nonfeed alternative agricultural products? Please specify the agency and give specific examples.

Answer: The principal resource being used by ARS to promote the commercialization of its research is a vigorous technology transfer system. The ARS scientist who is an inventor of a particular technology acts as a 'product champion.' An industrial partner is chosen and a cooperative research and development agreement (CRADA) is set up through the ARS Office of Cooperative Interactions. The Federal Technology Transfer Act permits the industrial partner to be offered a right of first refusal on exclusive rights to the technology. Alternatively, if the technology emerges without an early collaborative agreement with a commercial partner, the technology is advertised in various ways. Industrial corporations which would like to license in the technology are scrutinized by ARS according to the commercialization potential of their business plans. The winner is selected.

The Forest Service has an aggressive technology transfer program which includes our normal publications, special publications which target specific groups, the use of Cooperative Research Agreements (such as CRADA's), our State and Private Forestry program, use of the Extension Service, and the Patent Program under the 1986 Technology Transfer Act.

The focus in CSRS is on bridging the gap between a promising idea or technology and the requirements of a private investor. Project potential is typically assessed by a knowledgeable group of private and public representatives in a workshop setting to determine opportunities, hindrances, and appropriate actions. Projects are operated through cooperative agreements and include inputs of people, ideas, and money from each participant. Activities include verification in private laboratories, use of prototype facilities, commercial runs, and development of technical, cost, and price data for financial institutions. Most projects are mandated by Congress. Some examples follow.

The crambe/rapeseed program focuses on industrial products such as plastics, nylons, and lubricants made from vegetable oils with high erucic acid and its derivatives. A product that shows considerable promise is automatic transmission fluid that has over 50 percent high erucic acid. CSRS funds for crambe/rapeseed were $0.8 million in FY 1991. The program goal for guayule (a desert plant) is to establish a domestic natural rubber industry based on high molecular weight rubber for aircraft and land vehicle tires and includes products from the low molecular weight rubber resins and bagasse plant material fractions. This project is being done in cooperation with DOD which has put over $11.0 million into the program over the last 4 years. Guayule rubber tires are now being tested by DOD. The kenaf program is nearing commercialization after 5 years of joint development with equipment manufacturers, ARS, newspaper publishers, growers and processors. A $5.0 million newsprint mill is scheduled for construction in 1991. Currently being negotiated is a joint development project on biodegradable plastics from agricultural starches with DOD, private sector, commodity groups, USDA, and MIT. DOD is contributing $2.9 million to this effort in FY 1991.

PATENTS

Some concern has been raised in the area of patenting agricultural products and processing. Specifically, the Users Advisory Board recommends that ARS should place emphasis on patenting products and processes, and should install priority systems for patent filings, both domestic and foreign.

Question: How do you react to this recommendation?

Answer: The Agricultural Research Service (ARS) does use panels of knowledgeable scientists to set priorities for patenting inventions. We are aware of the Users Advisory Board's (UAB) views that our procedures need to be more structured and stringent. We agree and are exploring systems that could be installed to achieve these objectives.

Question: How many patents have been filed and obtained in the last several years? What income has resulted?

Answer: Patenting and licensing activities have increased significantly in recent years due to the incentives provided by improved legislative authorities for exclusive Federal licensing and cooperative research and development agreements with public firms.

For example, in 1987 and 1988 combined, 84 patents were filed, 62 patents issued, 42 licenses granted (several royalty-free), and fees and royalties generated only $223,000. In 1989 and 1990 combined, 129 patents were filed, 89 patents issued, 57 licenses were granted, and fees and royalties collected were $985,000.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

ARKANSAS

Question: For the last several years, I have worked with limited success with ARS to try to increase the number of ARS scientists in Arkansas. Arkansas far and away leads the nation in poultry production, will produce 50% of all rice grown in the nation this year, is second in catfish production, is fourth in cotton production, and seventh in soybean production. We are second only to California in the diversity of agricultural production and rank 10th (3rd in the South behind Texas and Florida) in total farm cash receipts.

Yet, as of FY 91 we only have 23 ARS scientists and support personnel in the state, including one (1) at the University of Arkansas - Fayetteville. By comparison:

Mississippi: 380 in the state, including 115 at Miss. State alone. Ole Miss, a non-land grant university, has another 64.

Louisiana: 310 in the state, including 34 at LSU alone.

Georgia: 446 in the state, including 296 located on the campus of the University of Georgia or at experiment stations.

Alabama: 47 in the state, all located at Auburn.

Florida: 310 in the state, including 157 at the University of Florida.

Texas: 514 in the state, including 169 at Texas A&M and 52 at Texas Tech.

Oklahoma: 126 in the state, including 31 at Oklahoma State.

Missouri: 81 in the state, all at the University of Missouri.

S. Carolina: 106 in the state, including 28 at Clemson.

It is unquestioned that ARS scientists located at these campuses make up a significant core of the agricultural research being conducted in the state, and these schools have been able to develop strong programs based on this federal support. Not to pick on any state, but even Delaware, 40th in agricultural production, has more ARS scientists than Arkansas.

The University of Arkansas, the state of Arkansas, and private industry have committed sizeable funds for the creation of a Poultry Science Center of Excellence at the University of Arkansas that will be second to none. The ARS has recently located one scientist at UA Fayetteville to establish a Poultry Production and Product Safety Unit which will work in conjunction with the Center. Do you intend to honor the appropriations language of the last two fiscal years calling for a total of four scientists and necessary support personnel be located at UA-F by the end of fiscal year 1991?

Answer: The Agricultural Research Service is responding to the appropriations language of the last 2 fiscal years. One scientist is stationed at the Fayetteville, Arkansas location and three other scientists are being actively recruited. However, it may not be possible to have all four scientists in place at Fayetteville by the end of fiscal 1991 because of the time required to locate top quality scientists with a long term commitment to high quality productive research.

Question: With Arkansas far and away leading the nation in broiler production, what are the ARS plans for concentrating federal poultry research in the state?

Answer: ARS recognizes the leadership of Arkansas in broiler production. We are responding to this opportunity for poultry research and we already have one scientist in place at Fayetteville. Three other scientists with appropriate support personnel are being actively recruited and we will increase the program as resources become available. This research program for diseases of metabolic, genetic, and nutritional origin will be

consistent with the ARS mission and it will complement the proposed expansion of the high containment research facilities for exotic infectious poultry diseases at the Southeast Poultry Research Laboratory in Athens, Georgia. It will also complement the poultry research of the University of Arkansas scientists, and make a significant contribution toward meeting the needs of the poultry industry.

Question: Also, the University of Arkansas at Fayetteville will soon complete its poultry disease containment facility, which is a federal-state effort. How does the ARS intend to cooperate in the use of this facility, and how is ARS insuring that funds being requested for poultry disease research elsewhere will not duplicate either programs or facilities already located at UAF?

Answer: The ARS is actively working with both the administration and the staff of the University of Arkansas-Fayetteville to make the best possible cooperative use of the poultry containment facility as well as other facilities for poultry research at the University. The ARS research program in Arkansas will initially address the turkey osteomyelitis complex and ascites in broilers. These two emerging disease complexes which are important causes of losses in modern, concentrated and integrated poultry production are not being studied at any other location by ARS. The National Program Staff of the ARS will continue to help assure that our future research at the University of Arkansas-Fayetteville both complements that of the University and does not unnecessarily duplicate that at other ARS locations.

RICE RESEARCH

Question: ARS has begun the effort of strengthening the Rice Research Center at Stuttgart, Arkansas, in the heart of the major rice production area in the U.S. A proposed Rice Germplasm Lab has received design money. If this facility is constructed, will the ARS concentrate rice research at the Center, including the addition of a cereal biochemist, a geneticist, and a physiologist?

Answer: The current ARS rice research program at Stuttgart constitutes an important component of our national rice research program. We are not in a position to expand our rice research effort at this time.

Question: With 50% of the nation's rice being grown in Arkansas, a percentage likely to increase under the new farm act, why has the ARS not heretofore concentrated federal rice research in the state?

Answer: We feel the total ARS initiative is playing a major role in meeting national needs. We do not view the mission of ARS scientists to be limited to the needs of the particular state in which they are located. Nevertheless, we recognize the desirability of having a strong program in such an important production area as Arkansas.

Question: The University of Arkansas at Fayetteville is recognized as a world leader in the area of alternative pest control research. Currently, research is being partially

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supported by a CSRS special grant. UA-F is very interested in ARS support at the campus location. Will the ARS support this effort?

Answer: The ARS recognizes an urgent need for alternative pest control technology and the contribution of the scientists of the University of Arkansas at Fayetteville in addressing these needs.

MEAT SAFETY ASSURANCE PROGRAM

Question: Will you insure that the ARS Meat Animal Research Center, through its meat safety assurance program, will coordinate with the CSRS-sponsored Food Safety Consortium involving the University of Arkansas, Iowa State University, and Kansas State University to insure no unnecessary duplication of effort?

Answer: Yes, the meat safety assurance program at the Roman L. Hruska U.S. Meat Animal Research Center will be coordinated with the CSRS-sponsored Food Safety Consortium to assure that no unnecessary duplication of effort occurs.

QUESTIONS SUBMITTED BY SENATOR HARKIN

PESTICIDES AND FERTILIZERS

Question: All the surveys I have seen indicate farmers believe they are using too much fertilizer and pesticides, but they often find it very hard to cut back. Yet many farmers have found that they can improve profits and help the environment by carefully managing their use of chemicals and fertilizer.

I am very interested in what the Department is doing to help farmers with this problem.

Has the Department, in planning its research and extension activities concerning water quality and environmental matters, established any goals or targets for reducing or limiting the levels of fertilizers and pesticides used in agriculture?

Answer: The USDA is concerned with helping farmers to improve the economic and environmental effectiveness of their use of pesticides and fertilizers. The Department's primary goal is to provide farmers, ranchers, and foresters with the knowledge and technical means to respond independently and voluntarily in addressing onfarm environmental concerns and related State water quality requirements. The target is to safeguard and enhance the Nation's ground and surface waters. Numerical quotas for reducing or limiting the levels of fertilizers and pesticides used in agriculture have not been established since agrichemical needs vary from farm to farm and reducing chemical inputs is one aspect of meeting the environmental goals and objectives. Site specific soils, topography, climate, yield goals, management capabilities, etc., must be considered in the development and adoption of technically and economically effective agrichemical management and agricultural production strategies that address water quality problems. ARS and CSRS/SAES have lead roles in conducting

collaborative research to develop new and innovative farming systems that address water quality from a holistic viewpoint.

Question: Has the Department reached a conclusion, or is it even looking at the question whether we in the United States are using more pesticides and fertilizers than are needed in agricultural production?

Answer: The USDA Working Group on Water Quality has established a Subcommittee on Database Development and Evaluation. This Subcommittee has undertaken the task of the development of comprehensive, consistent, national and State databases on agrichemical use and related practices. The objective of the program includes developing, analyzing, and disseminating timely, statistically reliable, and detailed data on farm use of pesticides, fertilizers, and related inputs. ARS and CSRS/SAES are providing cost analyses of farming practices and evaluations of economic impacts of water quality as part of a geographically focused Midwest strategy that was initiated in 1990. At the same time, ARS and State university scientists are developing new field and laboratory methods for rapidly, reliably, and inexpensively analyzing for plant nutrient requirements and pesticide residues. Advanced decision-aid systems are being developed by researchers that can be used by farm management specialists, extension specialists, and farm consultants to help farmers select, apply, and manage profitable and environmentally sound crop and livestock production systems. Reductions in the use of pesticides and fertilizers are only one aspect of protecting, improving, and enhancing water quality; application methods and timing also are critical factors which are being improved.

WATER QUALITY

Question: What is the Department doing to develop such a systems approach to water quality and other environmental concerns?

Answer: The development of improved management of agricultural production systems that prevent contamination of ground and surface waters depends upon understanding mechanisms that govern the persistence and movement of agricultural chemicals through soil and geologic materials, and that govern how such chemicals become available in forms that readily move. Research is underway by ARS, Cooperative State Research Service (CSRS), and State Agricultural Experiment Station (SAES) scientists to develop new agricultural management systems that reduce or prevent leaching of chemicals from farm fields to underlying ground water.

The systems approach is the central concept being used in the geographic systems research program of ARS and CSRS/SAES. As an initial study, the Midwest Initiative on Water Quality was initiated in 1990 on a series of corn and soybean production sites known as Management System Evaluation Areas (MSEA). These sites are located in Iowa, Minnesota, Missouri, Nebraska, and Ohio with collaborative research in Kansas, Michigan, North Dakota, South Dakota, and Wisconsin. ARS and CSRS/SAES in cooperation with ES, SCS, USGS, EPA, other Federal and State agencies, and industry are

working together on farmers' fields to assess the impact of current emerging farming systems on water quality.

The USDA Water Quality Program takes a broad and integrated view of farming practices with the single target of safeguarding and enhancing the quality of the Nation's ground and surface waters. The Sustainable Agriculture Research Program has a number of goals, one of which relates to water quality--the reduction in agrichemical inputs. The Global Change Program is also interested in knowing how environmental change affects rangeland vegetation and the sustainability of water resources in terms of quantity and quality. This research will draw on long-term ARS experimental rangeland and watershed records and SCS precipitation and snow accumulation records to develop fully validated models to estimate the effects of global change on rangeland ecosystems and on basin and regional water availability.

NEW PRODUCTS SPENDING LEVEL

Question: Please provide the Committee with an analysis of the amounts that ARS expects to spend in the Processes and New Products area. I am hopeful that the analysis will show a reasonable degree of detail concerning various categories of activities and the specific programs which those funds are coming from. I would also like to see how that compared to what was spent in FY 90.

Answer: ARS support for research on Processes and New Products presently totals $65.0 million in FY 1991, as compared to $57.1 million during FY 1990. Research activities are primarily performed at the five ARS research utilization laboratories at Peoria, New Orleans, Wyndmoor, Athens, and Albany, California.

Agricultural products of commercial importance are classified as follows: environmentally benign products, safe natural products to serve as food additives; petroleum replacements, reduction in imports of strategic materials, and expanded export market opportunities. Some specific examples of industrial products are: bioplastics, encapsulating agents for pesticides, biological control agents as substitutes for chemical pesticides, fermentation chemicals from starch for road de-icers, biodetergents, novel aerogel structural materials, vegetable oil printing ink, and precursors for the chemicals industry. Food products/processing targets are, for example: new processed food products tailored to meet foreign market needs with more value added before export; food products to meet desires for better nutrition, wholesomeness and convenience; improved shelf-life of export products; and optimal food process engineering system design. A feature in designing the portfolio of product targets is that value will be added to low margin raw bulk commodities (e.g., cereal starches, vegetable oils, butterfat), agricultural residues and food processing wastes.

ANIMAL FAT

Question: What is the ARS doing to implement the Designing Foods Report?

Answer: Studies with human subjects have been or are being conducted to provide information needed by food producers and processors to design healthful foods. These include studies on (1) fat and fatty acid levels on risk factors for chronic disease, such as immune response, fecal mutagens, platelet aggregation, blood cholesterol levels, and prostaglandins; (2) calcium intake and bone density in postmenopausal women; and (3) the enhancing effect of animal protein on iron and zinc availability. In addition, ARS has worked with industry and the Human Nutrition Information Service in updating the nutrient composition of beef and pork products and eggs.

ARS anticipated the Designing Foods Report and had research underway in many of the recommended areas for development in preharvest and post-harvest technology to reduce fat in animal products. ARS has preharvest research on: determining fat content of carcasses and the fat and protein content of live animals, altering the lean-to-fat ratio of meat and fat content in milk through breeding, nutrition, and management, altering the fatty acid composition of meat, identifying biochemical mechanisms that control partitioning of feed nutrients in meat and milk, determing the extent of genetic variation in control of leanness in meat breeds, developing methods to permit rapid early selection of genetically superior animals, and determining biochemical processes and genes that regulate lean growth and protein in meat and milk production.

ARS' on-going research in post-harvest areas include: developing methods for removal of cholesterol from milk fat; developing processes to reduce fat content of traditional products such as hamburger and cheeses; and using fermentation technologies to produce new products from milk fat.

TECHNOLOGY TRANSFER

Question: What is the ARS doing in the area of technology transfer and how is the Peoria experiment with the Biotechnology Research Development Corporation developing?

Answer: ARS activity in technology transfer is vigorous. We have 165 cooperative research and development agreements (CRADA) in place with industrial partners. During 1990 more than 20 ARS licenses have been taken up by industry. Four new commercial ventures have been set up during 1989/90 based on technology created by ARS. The Biotechnology Research and Development Corporation (BRDC) is proving to be a useful mechanism for moving technology from Federal and university laboratories to the private commercial sector. Through the scientific advisory board of BRDC, early technology with commercial potential is being identified in Federal and university laboratories. Projects are subjected to scrutiny and only the best are funded.

AMES, IOWA

Question: What is the status of the Necropsy incinerator? When do you expect it to be placed into service?

Answer: The design contract award is projected by the fourth quarter of FY 1991. We expect the design to be completed by the first quarter of FY 1993. Construction will require approximately one and a half years to complete.

ACETATE PRODUCTION

Question: What has ARS done to increase its research concerning the use of agricultural materials for the production of acetate?

Answer: For the manufacture of acetate through starch fermentation to be viable commercially, the cost of production has to be lowered. ARS is addressing the problem of developing new strains of microorganisms for this purpose. This work is being performed at the ARS National Center for Agricultural Utilization Research (NCAUR), Peoria, Illinois, which has a good deal of expertise on both the screening and genetic engineering of microorganisms.

ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION ACT

Question: What steps are being made to implement the Alternative Agriculture Research and Commercialization Act (AARC) in the 1990 Farm Bill?

Answer: ARS has, historically, been performing research at its four Regional Research Centers which lead to industrial products having commercial potential. In recent years ARS has been engaged in redirecting existing resources to this priority area of research. This has involved deemphasizing research on low margin raw bulk commodities in favor of work on value-added product technology. A feature of ARS product development activity is its technology transfer system. There is an extremely active interchange with industry through the CRADA (cooperative research and development agreement) mechanism. This permits ARS research program design decisions to be backed by market intelligence and other aids to commercialization provided by industrial partners. There are about 150 CRADA's in place; during 1990 more than 20 ARS licenses were taken up by industry; four new business enterprises were set up during 1989/90 based on licensed ARS technology. ARS creates the technology; industry transforms it into commercial product lines.

QUESTIONS SUBMITTED BY SENATOR ADAMS

WASHINGTON STATE

Question: Please indicate the amount of funding appropriated in FY 1991 and the amount of funding requested by the Administration in FY 1992 for the following research activities. If funds are not specifically requested for the activity, please indicate the amount of funding the Administration anticipates spending on the activity in FY 1992. Also, please indicate the amount of funding and the types of activities expected to be carried out in Washington state.

- Russian wheat aphid research
- regional wheat quality lab at WSU
- STEEP II research
- cool season legume (pea & lentil) research
- dried bean research
- regional barley gene mapping
- Tri-state potato research
- aquaculture research
- TCK smut
- Northwest small fruit center

Answer: The information you requested follows:

Activity	FY 1991	FY 1992	Washington State FY 1992
Russian wheat aphid	2,317,300	2,317,300	--
Wheat quality lab	2,341,100	2,341,100	557,200
STEEP II	437,000	437,000	437,000
Pea & lentils	1,134,300	1,134,300	600,000
Dried beans	779,900	779,900	137,400
Barley gene mapping	--	--	--
Tri-state potato	128,400	128,400	42,800
Aquaculture	5,414,900	5,414,900	--
TCK smut	353,500	353,500	48,300
Small fruit center	3,996,400	3,996,400	3,060,700

BARLEY RESEARCH

Question: What amount of funding is the Administration requesting or does the Administration anticipate spending on the ARS Cereal Crops Research Unit (CCRU) at the University of Wisconsin, Madison?

Answer: Current base funding for the Cereal Crops Research Unit is $642,800. No additional funding is included in the Administration request.

Question: Will the amount of funding for the CCRU program enable the CCRU to hire a replacement for the malting quality evaluator who recently retired?

Answer: No, we do not anticipate refilling the support position within current resources.

Question: Will the amount of funding for the CCRU program enable the CCRU to build a new research greenhouse for the barley and malt lab?

Answer: Although a needed facility, current ARS funding for the CCRU will not enable construction of a research greenhouse.

Question: What amount of funding is the Administration requesting or does the Administration anticipate spending on the ARS Genetics position at the University of Arizona?

Answer: Base support for the ARS barley genetics position at Tucson, Arizona, is $122,700.

Question: Will the amount of funding enable the ARS to refill the genetics position when the current employee retires?

Answer: No, current funding is only about half of the full level needed to adequately support the research activities of one scientist.

BARLEY RESEARCH

Question: Does ARS plan to provide funding for a permanent barley plant pathologist position at the USDA-ARS Cereal Rust Lab at the University of Minnesota, St. Paul?

Answer: No. We do not have the resources to provide permanent funding for a barley plant pathology position at the USDA-ARS Cereal Rust Laboratory at the University of Minnesota, St. Paul.

Question: Does ARS plan to provide funding for barley stem rust research at the USDA-ARS Northern Crop Science Lab at North Dakota State University in Fargo?

Answer: Currently, we do not conduct research specifically on barley stem rust at the Northern Crop Science Laboratory at Fargo. We do not have adequate resources at this time to establish a permanent barley stem rust position at Fargo.

ARS considers a barley diseases position at its Cereal Rust Laboratory in St. Paul to be of higher priority than a specific barley stem rust research position at the Northern Crop Science Laboratory at NDSU in Fargo. Barley is susceptible to three different rust diseases, including stem rust, leaf rust, and stripe rust. Of these, stem rust poses the greatest threat in North America. However, barley also faces a serious potential threat from stripe rust. The Cereal Rust Lab has a large collection of isolates of important cereal and grass rusts including stem rust of barley. Moreover, the existing staff conducting research on cereal rust diseases make the Cereal Rust Lab an internationally recognized center for cereal rust research. This staff would complement the research of a new barley rust position in the Cereal Rust Lab.

Question: Does ARS plan to provide funding for Russian wheat aphid research on barley at the USDA/ARS Plant Science Research Lab at Stillwater, Oklahoma?

Answer: Yes, of the $1,173,100 on Russian wheat aphid, ARS has allocated to the Stillwater Lab $44,800 for development of pest-resistant barley varieties, $167,800 for biological control, and $167,800 for integrated pest management, all of which are related to the Russian wheat aphid problem.

NATIONAL SEED STORAGE LABORATORY

Question: Will completion of the National Seed Storage Lab at Fort Collins, Colorado require the full $1.8 million requested by the Administration for this purpose? If not, to what purpose will the Administration devote the extra funds?

Answer: I am pleased to announce that ARS can go ahead with the construction of the National Seed Storage Laboratory, without the $1.8 million as originally anticipated. Based on construction bid solicitations conducted last February, the facility can be constructed from the $12.2 million currently available for the project. The Department is currently reviewing alternative uses for the savings accruing from the lower cost contract.

DRY BEAN PROGRAM - PROSSER, WASHINGTON

Question: What is the current and future status of the ARS dry bean program at Prosser, Washington, and what plans does ARS have with regard to the position held by Dr. Matt Silbernagel?

Answer: Currently Dr. Matt Silbernagel is conducting research on the control of diseases of dry beans. Our plans are to have Dr. Silbernagel continue to conduct this research within existing resources.

QUESTIONS SUBMITTED BY SENATOR KERREY

1990 FARM BILL RESEARCH PURPOSES

Question: Will the Department of Agriculture develop specific guidelines or procedures for implementing the research purposes provisions of the 1990 Farm Bill (section 1602) in order to ensure that those purposes are reflected in the research priority-setting processes and in the research that is conducted?

Answer: No specific procedures or guidelines are necessary for the implementation of Section 1602. All existing Federally-funded research and extension programs are conducted within the broad parameters set forth in Section 1602. There are no plans to implement or fund any research or extension program which would not be in accordance with parameters. The priority-setting advisory committees and the agencies of Science and Education are aware of Section 1602 and that awareness will be reflected in the work of such entities.

ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION ACT

Question: Section 1657 of the Farm Bill establishes and authorizes funds for the Alternative Agricultural Research and Commercialization Act of 1990. I understand that the Administration has not requested funding for this program for fiscal year 1992.

Will the Department of Agriculture provide funding or request funding for this program? If not, why not?

Answer: Funds for the alternative Agricultural Research and Commercialization Act are not available in 1991 and are not requested in the President's budget for 1992. The Department has recently established a Task Force on Agricultural Industrial Materials. The Task Force will be responsible for coordinating

Departmental activities in research and commercialization of agriculture-based industrial materials and will be making recommendations on alternative ways to fund and support research and technology transfer in this area. Funding for specific provisions of the FACT Act of 1990 will be considered during the development of the Administration's 1993 budget.

QUESTIONS SUBMITTED BY SENATOR BYRD

AQUACULTURE

Question: In FY 1991, $450,000 was provided to establish a demonstration program that would test the feasibility of establishing aquaculture on family farms in the Appalachian region. What progress has been made and how many demonstration sites have been established?

Answer: The program to demonstrate the feasibility of establishing aquaculture on family farms in the Appalachian Region is making excellent progress. The organizational structure, responsibilities of cooperators, and technical criteria for water quality at the sites have been developed. One demonstration site is established and fully operational with trout stocked in the tank. The other nine sites are not completed.

Question: What is the status of the fish linked to plant culture research and development project at the Spring and Groundwater Institute in Shepherdstown, West Virginia?

Answer: The fish linked to plant culture research and development project is making good progress. The fish culture part of the system is operating at full capacity. Results of evaluations of some components of the continuous culture system will be reported at the annual scientific meeting of the American Society of Animal Science in August 1991. The greenhouses are nearly completed with plans to link to the fish culture early this spring.

Question: How are scientists from the Appalachian Fruit Research Station contributing to this project?

Answer: The scientists from the Appalachian Fruit Research Station are contributing their expertise in establishing the small fruit orchard and greenhouse-hydroponics system. The scientists will conduct evaluations on the use of water from fish culture for horticultural production.

Question: Will this project be continued in FY 1992?

Answer: Yes, the research is planned to continue in FY 1992.

APPALACHIAN SOIL AND WATER CONSERVATION LABORATORY

Question: Please provide a list of research projects currently being undertaken at the Appalachian Soil and Water Conservation Laboratory in Beckley, West Virginia and the dollar

amounts associated with each project. Please provide the funding level provided in FY 1991 and the funding requested in the FY 1992 budget request for this facility. Also provide the number of people on board and FTE's at the facility for FY 1990, FY 1991, and those same numbers that are budgeted for FY 1992.

Answer: Research projects and FY 1991 funding levels at Beckley are: Forage/Livestock Systems for Marginal Soils in the Appalachian Region at $122,500; Forage/Livestock Production Research at $280,400; Low Input Forage Production Systems for Marginally Productive Soils in the Appalachian Region at $650,700; Impact of Hilly Topography on Forage Production Efficiency in the Appalachian Region at $598,900; Optimize Performance of Forage Legumes and Microbial Associations for Acidic Soils at $601,600; and Alleviate Acid Soil Toxicities and Nutrient Deficiencies to Improve Forage Production at $808,200.

The total funding level for the Beckley laboratory in FY 1991 is $3,062,300. Funding requested for FY 1992 is the same level.

Staffing in FY 1990 included 65 persons involving 42.7 full time equivalents; in FY 1991 includes 66 persons involving 43.2 full time equivalents; and proposed for FY 1992 includes 66 persons involving 43.7 full time equivalents.

APPALACHIAN FRUIT RESEARCH LABORATORY

Question: Research conducted at the Appalachian Fruit Research Laboratory over the past 8 years has demonstrated that biological control agents can effectively replace chemical pesticides in many post-harvest situations. What needs to be done to link the biological control technology with the commercial packing line operation?

Answer: The ARS Appalachian Fruit Research Laboratory has shown the potential for biological control in preventing post harvest rot of fruit. ARS is cooperating with industry to evaluate this technology under commercial storage conditions. If successful, industry will seek an Experimental Use Permit from the Environmental Protection Agency to proceed with commercialization.

Question: Please provide the number of people on board and FTE's at the Appalachian Fruit Research Laboratory for FY 1990, FY 1991 and the FTE and on-board personnel budgeted for FY 1992.

Answer: In 1990, we had a total of 80 employees at the Appalachian Fruit Research Laboratory, which included 23 temporary Federal employees and 10 permanent employees under a cooperative agreement with the West Virginia University. In FY 1991, we have 82 employees. We anticipate we will have 82 employees in FY 1992.

QUESTIONS SUBMITTED BY SENATOR HOLLINGS

CHARLESTON, SOUTH CAROLINA

Question: In FY 90, $1,135,000 was appropriated to begin design of a new vegetable research laboratory in Charleston, South Carolina. What is the status of that effort?

Answer: ARS has advertised and selected a South Carolina A-E firm to do the design of the new facility. Negotiations for the award of a design contract are in progress, and we anticipate that an award will be made the second quarter of FY 1991.

Question: Why is there no request in this year's budget for funds to construct the needed laboratory that is being designed for the Charleston site?

Answer: The design of the laboratory will not be complete until late FY 1992 which will not allow for construction bidding and award in FY 1992.

Question: Would funds appropriated by Congress in FY 92 for a new vegetable research laboratory in Charleston be consistent with the Agricultural Research Service's needs and priorities?

Answer: In FY 1988, Congress provided $50,000 for a feasibility study to consider replacement of existing facilities at Charleston and $1,135,000 in FY 1990 to begin planning and construction of a new facility. The highest ARS priorities are reflected in the 1992 budget and represent projects for which construction can begin if all requested funds are appropriated.

QUESTIONS SUBMITTED BY SENATORS MIKULSKI AND SARBANES

BELTSVILLE AGRICULTURAL RESEARCH CENTER RENAISSANCE 93

Question: What is the status of the Renaissance 93 plan to upgrade and rehabilitate the physical facilities at the Beltsville Agricultural
Research Center (BARC)?

Answer: BARC Renaissance 93 which began in 1986 and is now the BARC Modernization Plan. The project is progressing on schedule. The overall plan is phased over an 11-year period and estimated to cost $200 million to complete. To date the following major activities have been completed or are near completion:

PROJECT	COST
Building 006 Renovations, Plant Molecular Biology Laboratory	$1,728,000
Steamline replacement	5,000,000

Building 007 Renovation, Natural Resources Institute	6,000,000
Water line replacement/repair	1,350,000
Building 003 Renovation, Administration Building	5,900,000
Boar Facility Renovation	529,000
National Visitors Center Renovation	583,000
Building 303 Renovation, Instrumentation and Sensing Laboratory	575,000
Pesticide Handling Facilities Construction	441,000

Question: What progress has been made in implementing the long-range goals of Renaissance 93?

Answer: In 1988, a major step was taken in contracting with a private firm for a comprehensive architectural and engineering study. The firm reviewed the facilities, became familiar with the Agricultural Research Service mission and the research priorities at BARC, and integrated this information into an 11-year master plan for BARC modernization. The study, completed in early 1990, emphasized the need to upgrade the Center's infrastructure. The study suggested a mix of new construction, the gutting and rebuilding of existing buildings, necessary repairs, and demolition of structully unsound buildings to meet BARC's needs.

Question: What are the remaining high-priority maintenance, rehabilitation, and modernization needs?

Answer: High-priority projects to be completed are the gutting and rebuilding of several laboratory buildings, a new plant sciences building, replacement of a significant portion of the greenhouses, a swine facility, a new central collections facility, a new consolidated poultry facility, two new waste water treatment plants, upgraded electrical distribution service, replacement of steam and water lines, etc. Economic analyses are conducted on all building projects to determine if it is more feasible to renovate existing buildings or add new construction.

Question: What are the impediments to modernization?

Answer: The only foreseeable impediments to modernization are local regulations/requirements imposed on a Federal facility. For example, the Washington Suburban Sanitary Commission is currently requesting permission to evaluate all BARC structures to determine compliance with their regulations. Environmental assessments are required on most modernization projects.

Question: Please provide details of the projects, which would be accomplished with the funding requested for Fiscal 1992.

Answer: The following is a list of proposed projects for FY 1992.

Construction of New Plant Science Laboratory	$13,200,000 (C)*
Phase I of Modernization of Range 2 Greenhouse Complex	2,500,000 (C)
Building 157 Dairy Food Renovation	250,000 (D&C)*
Annual Painting	300,000 (D&C)
Annual Roofing	300,000 (D&C)
West Waste Water Treatment Plant	300,000 (D)*
Demolition of Old Facilities	150,000 (D&C)
Consolidated Poultry Facilities	925,000 (D&C)
Range 4 Repairs	300,000 (D&C)
Insectary	50,000 (D)
Bioscience Building HVAC Upgrade	50,000 (D)
Fertilizer Storage	60,000 (C)
Polyhouses	112,000 (C)
Parking Lot Repairs	375,000 (D&C)
Fence Repairs	90,000 (D&C)
Contingency	700,000 (D&C)
Miscellaneous Small Projects	338,000 (D&C)
Total	$20,000,000

* C = Construction, D&C = Design and Construction, D = Design

A new plant science facility at BARC-West will bring together scientists in a united cluster of advanced high-priority plant research. Currently, these scientists are dispersed and housed in antiquated facilities (Building 004 and headhouses located in Ranges 1 and 2, Buildings 009, 010, and 011). The laboratories are not functional, given their present conditions. Modern facilities are needed to advance high-priority research to: 1) develop improved pest-resistant high-quality germplasm and varieties of major vegetable and fruit crops; 2) solve problems of plant growth and flowering, genetic improvement, and the production and maintenance of pathogen- and pest-free plants; 3) develop efficient and cost effective means of biocontrol of plant diseases; and 4) solve agricultural problems arising from plant disease. These programs, which are widely dispersed in different buildings, will be brought together in a new facility consisting

of 68,000 square feet of modern laboratory space. Funding for the planning and design of this facility was provided in the FY 1991 budget.

Modernization of the Range 2 greenhouse complex at Beltsville will improve support for a wide range of research programs. These programs include: 1) developing new florist and nursery crops to make American products more competitive with foreign imports now flooding U.S. markets; 2) finding new methods for developing disease-resistant plants and specialty horticultural crops such as tomatoes, beans, and small fruits; and 3) breeding plants with improved nutritional quality and longer storage life. Most of the existing greenhouses have outlived their normal useful life expectancy, are inefficient and costly to heat, and are in constant need of repair. These greenhouses must be systematically modernized to reduce operating costs and provide the proper environment for containment, along with more modern temperature and humidity control systems. The modernization plan for Range 2 will be carried out in four phases. Phase I construction is planned for 1992. Additional phases are projected for 1993, 1994, and 1995, with construction to be completed by the end of 1996.

GYPSY MOTH

Question: Last year you provided this Committee with descriptions of the research underway by ARS to control the gypsy moth in non-forest areas. Would you please submit for the record a brief description of the five most significant accomplishments resulting from research conducted in 1990?

Answer: The five most significant accomplishments in ARS gypsy moth research during 1990 were: (1) the development of a computerized, decision-making system for managing gypsy moths in urban park environments; (2) the development of a new gypsy moth egg mass sampling strategy for use in urban homesites; (3) the first field evaluation of gypsy moth nuclear polyhedrosis virus produced in vitro; (4) ecological studies showed warm fall temperatures reduce gypsy moth egg viability, thus having an unfavorable effect on the following year's population density; and (5) a new pheromone dispenser designed for use in gypsy moth detection traps.

Question: The Committee recommended and the Senate approved a $500,000 increase for gypsy moth research for FY 1991 and Congress appropriated $250,000. Please tell us what the plans are for the $250,000 that was appropriated and what you would do with an additional $250,000 if it were appropriated in FY 1992.

Answer: ARS plans to implement the $250,000 that was appropriated in FY 1991 to three areas of investigation at the Beltsville Agricultural Research Center: (1) improvement of sampling procedures for gypsy moth egg masses, larvae, and adults; (2) development of a ground-based management program; and (3) expanded development and implementation of a computerized, decision-making system for use in urban areas to include homesites and communities. If an additional $250,000 were appropriated in FY 1992, ARS would plan to expand research thrust areas that would include: (1) characterization and evaluation of new strains of

Bacillus thuringiensis and of the gypsy moth polyhedrosis virus; (2) development and evaluation of improved procedures for the use of pheromones for population suppression through mating disruption; and (3) sponsorship of economic assessments of the cost effectiveness of various alternative suppression technologies to protect high-value trees for home owners, communities, parks, and other non-forest environments.

REDUCTION IN PESTICIDES

Question: The results of a study conducted at Cornell University, recently reported in Science magazine indicate that farmers could reduce their use of chemical pesticides by 50% by using available alternative controls resulting in savings of $4 to $10 billion in indirect costs while increasing food costs by less than 1% or about $1 billion per year. Do you agree with the results of this study? If so, please tell us what needs to be done to implement the alternative methods. If you do not agree, please describe what biologically based technologies would be needed to accomplish a 50% reduction in pesticides without significantly increasing food costs. Specifically, describe what resources ARS would need in order to make a major contribution to the development of these technologies.

Answer: ARS agrees in principle that pesticide use could be substantially reduced with alternative pest control technology. In fact, the major portion of ARS crop protection research is currently dedicated to the development of alternatives including biocontrol, host plant resistance, cultural practices (including crop rotation), improved pesticide application technology, mating disruption and genetically engineered plants. Although ARS has dedicated a significant amount of resources to this approach to pest control, progress has been slow and there are several reasons why. This type of research is expensive and there are regulatory constraints. On the user level, alternatives in many cases are more expensive and/or require greater management skills to implement. Marketing standards and consumer preferences prohibit an economic return to alternatives which may result in cosmetic changes in the produce. Consumers have proven they are not always willing to pay significantly more for organically-grown produce. ARS will continue to direct a major effort to research and development of alternatives to synthetic pesticides. ARS has proposed budget increases for FY'92 of $1,500,000 for biocontrol research and $2,500,000 for further research and development of integrated pest management which includes minor user registrations. We estimate that it would take an additional $10 million per year in order to make a major contribution to the development of alternative pest control technology. These additional funds would provide for an additional 25 SY's and their necessary support staff and equipment.

ALTERNATIVES TO SUSPECTED ONCOGENS

Question: Last year you reported that if the over 50 pesticides identified by the Environmental Protection Agency and the Board on Agriculture as suspected carcinogens were removed there would be major gaps in our ability to protect fruits and vegetables from pests. You further indicated that 35 scientists

would be required to fill the major gaps in the ARS plant disease and insect research program. Please describe what you have proposed in your FY 1992 budget to develop non-chemical or non-pesticidal technologies and integrated controls for insects and plant diseases that would be needed if the suspected oncogenic pesticides were banned by EPA.

Answer: The FY-1992 budget contains proposed increases for non-chemical or non-pesticidal technologies and integrated controls for insects and plant disease in two thrust areas: Environmentally Compatible Pest Control Technology ($1.5 million) and Improved Food Safety ($1.5 million). The funds in the first thrust area would be used by field locations to conduct pilot research needed to determine whether a pest control technology is technically or economically feasible for implementation by the public or private sectors. New technology for managing pests often cannot be developed for implementation in commercial agriculture without refinement through large or otherwise expensive developmental research. The primary intent of this program is to advance toward practical use of emerging technologies as alternatives to broad spectrum insecticides.

The budget increase in the second thrust area (food safety) funds research programs that are dedicated to the reduction of pesticide residues on food crops. Specific approaches include: 1) the development of area-wide management strategies for lepidopterous (e.g., corn earworm, fall armyworm, diamondback moth, rice borer, cabbage looper, etc.) pests of food crops, 2) development of integrated pest management techniques for vegetable pests in the southeastern U.S., and 3) acceleration of developmental research for insect specific pathogens for use as alternatives to chemical pesticides. Currently, the total level of research effort in ARS on developing non-chemical control of plant diseases, nematodes, insects and weeds is $52 million involving 290 scientists.

USDA COORDINATION AND PRIORITY SETTING

Question: USDA is recommending a substantial increase in its FY 1992 budget including over $10 million increase in the Agricultural Marketing Service budget for the pesticide data program and 1.5 million in ARS to accelerate development of biologically-based alternative pest control technologies to minimize chemical residues in food. Increases are also indicated for the Economic Research Service and other agencies. Please describe the mechanism by which ARS interacts and communicates with the other USDA agencies in selecting specific pests, crops, and pesticides for study so that you can insure that you are addressing the highest priority problems. Also, how is the resulting information communicated to ARS management and scientists?

Answer: ARS mechanisms for interaction and communication with other USDA agencies on the subject are as follows:

The Interagency Biological Control Coordinating Committee with representation from ARS, Animal and Plant Health Inspection Service, Cooperative State Research Service, and

associated biological control working groups provide an information structure to select targets for biological control.

The National Agricultural Pesticide Impact Assessment Program, also known as NAPIAP, has representation from ARS, Cooperative State Research Service, Extension Service, Economic Research Service, Soil Conservation Service, Foreign Agricultural Service, Animal and Plant Health Inspection Service and the Office of the General Counsel. This is made up of two committees, one of them "Steering" and the other is a Technical Advisory Group (TAG). The TAG prioritizes the pesticides/uses on the special review list issued by EPA. This list is submitted to the Steering Committee which sets the final priority list based on need and funding, followed by approval to proceed with the biologic/economic assessments.

The Minor Use Pesticide Registrations Program, also known as IR-4, has representation from ARS, Extension Service, Economic Research Service, Soil Conservation Service, Cooperative State Research Service, and Animal and Plant Health Inspection Service. These agencies review pesticide registrations being cancelled, economic impacts of the cancellations and set priorities for IR-4 projects.

Other special committees such as technical working groups, and workshops, including representatives of the various agencies, are frequently held, i.e. Leafy Spurge Control, Herbigation, Gypsy Moth Working Group, Boll Weevil Eradication Technical Committee, Pink Bollworm Technical Committee and Interagency Planning Committee on Integrated Pest Management. The resulting information is communicated through the National Program Staff to ARS management and scientists in the form of problems to be solved, research priorities, and resources required.

IPM PILOT PROGRAMS

Question: You are requesting a $1.5 million increase for your integrated pest management pilot program for FY 1992 in addition to the $9.4 million available in FY 1991. Please list the projects currently underway with existing funds and identify what projects you are proposing for FY 1992. Please include a description of how economic assessments of these projects are made so that information is available to the private sector to encourage the adoption of alternative pest control technologies.

Answer: The integrated pest management/pilot test projects currently underway with existing funds and locations for the research are listed below as well as the projects and locations proposed for 1992. One of the criteria used in the consideration of funding for these projects is an economic assessment by the researchers including the potential economic benefit of the new technology to producers as a replacement for existing technology. Each project is critically evaluated on these criteria before funding is approved. The researchers receiving these funds are encouraged to cooperate closely with the private and public sectors to facilitate technology transfer. The results from these

research efforts are published in scientific journals and generally are available to the popular press.

Current Projects

Pseudomonads as a Biological Control Agent for Downy Brome in Winter Wheat (Pullman, WA)

Integrated Pest Management of Stable and House Flies in Beef Cattle Feedlots in the Midwest (Lincoln, NE)

Simulation of Cotton Pest Damage (Mississippi State, MS)

Biological Control of Pecan Insects using Early Legumes, Predator Releases and Applications of Nematodes (Byron, GA)

A Model Based Reasoning System for Cotton Pest Management (Mississippi State, MS)

Validation of a Biological Control System (Yakima, WA)

Biotic and Abiotic Factors Essential to Control the Potato Diseases Ring Rot, Early Dying and Scab (Beltsville, MD)

Biological Control and Management of Colorado Potato Beetles and Aphids (Beltsville, MD)

Integrated Strategies for the Management of Filth Breeding Flies on Dairy Farms and The Development (Beltsville, MD)

Biochemistry and Physiology of Livestock Insects (Beltsville, MD)

Biocontrol of Armored Scales, Vegetable Ornamentals, and Row Crop Pests (Beltsville, MD)

Biology, Ecology and Management of Nematode Parasites of Potatoes (Ithaca, NY)

Weed Management for Reducing Ground Water Contamination in Corn and Soybeans (Columbia, MO)

Biocontrol of Weed Seedlings and Reproductive Structures with Microbial Agents (Columbia, MO)

Biological Control of Corn Insects: Conservation and Enhancement of Indigenous Entomopathogens (Ames/Ankeny, IA)

Develop Chemical Methods for Insect Disinfestation of Stone Fruits and Citrus for Exports (Fresno, CA)

Physical Control: Controlled Atmosphere Heat and Cold for Dried Fruit, Nut and Nectarine Pests (Fresno, CA)

NPV, Bacillus Thuringiensis, Nematodes to Reduce Postharvest Insect Losses to Fruits and Nuts (Fresno, CA)

Integrated Pest Management, Basic Biology for Codling Moth on Walnut, Dried Fruit and Nectarine (Fresno, CA)

Irrigated Desert Research (Brawley,CA)

Integrated Pest Management for Yellow Star Thistle Phase II (Albany, CA)

Genetics and Germplasm Management of Plant Hosts and Their Insect Pests (Phoenix, AZ)

Improvement of Wheat Through Control of Foliar Diseases and Smuts (Pullman, WA)

Biology and Control of Weeds in Field Crops in Conservation Production Systems (Pullman, WA)

Biology and Management of Selected Tree Fruit Insects (Yakima, WA)

Biology of Weeds in Irrigated Field Crops in the Pacific Northwest (Prosser, WA)

Stabilizing HRW Wheat Production with Multiple Pest Resistant Germplasm and Control Strategies (Manhattan, KS)

Biology and Ecology of Grasshoppers and Mormon Crickets in the Great Plains (Bozeman, MT)

Integrated Weed Management to Improve Grasslands of the Central Great Plains (Lincoln, NE)

Integrated Management of Stable Flies and House Flies on Confined Livestock (Lincoln, NE)

Occurrence, Movement and Management of Field Crop Insect Pests (College Station, TX)

Develop Weed and Brush Management Technology for Rangelands While Maintaining Ground Water Quality (College Station, TX)

Development of Integrated Management Systems for Producing Cotton More Efficiently (Weslaco, TX)

Bioactive Substances to Manage Insects Based on Quantitative Population Ecology of Cotton Pests (Weslaco, TX)

Biological Methods for Managing Cotton Insect and Mite Pests (Weslaco, TX)

Biology and Control of Cattle Grubs and Related Flies (Kerrville, TX)

Biology and Control of Biting Flies Affecting Livestock (Kerrville, TX)

Improved Weed Management Systems for Rice (Stuttgart, AR)

Develop Application Technology to Reduce Herbicide Use and Improve Weed Control in Conservation Tillage (Stoneville, MS)

Integrated Control of Pecan Pests (Stoneville, MS)

Development of Integrated Methods for Insect Pest Control to Improve Crop Production Efficiency (Stoneville, MS)

Microbiological Control of Agronomic Weeds (Stoneville, MS)

Biological and Genetic Control of Crop Pests Emphasizing Heliothis (Stoneville, MS)

Interface of Management with Forage Legume Characteristics for Beef and Dairy Cattle Production (Mississippi State, MS)

Developing Principles and Systems of Weed Control and Cultural Practices for Sugarcane Production (Houma, LA)

Weed Ecology, Management, Application Techniques and Ground Water Quality on Irrigated Coastal Plain Crops (Tifton, GA)

Weed Management, Herbicide Application Technology and Ground Water Quality in Horticultural Crops (Tifton, GA)

Weed Biology, Ecology, and Management Systems for Peanuts and Rotation Crops in the Southeastern Coastal Plains (Tifton, GA)

Pecan Aphid Control (Byron, GA)

Alternative Controls for Arthropod Pests of Pecan in the United States (Byron, GA)

Integrated Management Systems for Filth Flies Affecting Man and Animals (Gainesville, FL)

Modeling and Computer Simulation of Integrated Management Systems for Insects, Ticks and Mites Affecting Man and Animals (Gainesville, FL)

Integrated Management Systems for Mosquitoes and Gnats Affecting Man and Animals (Gainesville, FL)

Integrated Management of Imported Fire Ants (Gainesville, FL)

Biology and Ecology of Imported Fire Ants (Gainesville, FL)

Imported Fire Ant Behavior, Physiology, and Biochemistry (Gainesville, FL)

Biological Control of White Grubs and Plant Resistance to the Sugarcane Borer in Sugarcane (Canal Point, FL)

Biological Control of Aquatic and Wetland Weeds for Ground Water Quality Protection (Fort Lauderdale, FL)

Genetics of Disease Resistance, Epidemiology and Control of Fungal Pathogens of Small Grains (Raleigh, NC)

Technology Transfer of Expert System Peanut (Dawson, GA)

Integrating Conservation Tillage and Pest Management with Irrigated Cotton, Soybean and Triticale (Tifton, GA)

Biological Control of Cotton Seedling Diseases and Weed Pests with the Fungus, Gliocladium Virens (College Station, TX)

An Integrated Pest Management System for Crop Production in the Northwest Wheat Region Phase II (Pullman, WA)

Minor use Pesticide Special Research Project--Ornamental Pathology (Beltsville, MD)

Development of a Simulation Model for Predicting the Spread of Aphid Borne Potato Viruses (Aberdeen, ID)

Controlled Release Herbicide Formulations - Their Efficacy and Role Reducing Ground Water Contamination (West Lafayette, IN)

Exploit Mycoparasites for Biocontrol of Sclerotial Plant Pathogens (Beltsville, MD)

Biocontrol and Integrated Control of Seedling Diseases and Wilts of Major Crops (Beltsville, MD)

Development and Effect of Weeds in Cropping System and Edaphic and Microclimate Interactions (Ithaca, NY)

Development and Evaluation of Zone Production Systems for Irrigated Field Crops in the Arid West (Shafter, CA)

Determine Effects of Zone Production Systems on Weeds and Beneficial and Detrimental Soil Organisms (Shafter, CA)

Infestation-Free Zone Concept to Eliminate Need of Quarantine Treatment for Three Fruit Fly Species (Honolulu, HI)

Biology and Control of Weeds in Field Crops in Conservation Production Systems (Pullman, WA)

Develop Criteria for Improved Tillage and Planting Machinery in the Dryland of the Pacific Northwest (Pendleton, OR)

Epidemiology, Pathogensis and Control of Bluetongue (Laramie, WY) Plant/Animal Interrelationships in Livestock Poisoning by Plants (Logan, UT)

Stabilizing HRW Wheat Production with Multiple Pest Resistant Germplasm and Control Strategies (Manhattan, KS)

Conservation and Production Systems for Subtropical Climates (Weslaco, TX)

Integrated Control of Pecan Pests (Stoneville, MS)

Mass Propagation Technology for Control of the Boll Weevil and Heliothis (Stoneville, MS)

Biological and Genetic Control of Crop Pests Emphasizing Heliothis (Stoneville, MS)

Developing Principles and Systems of Weed Control and Cultural Practices for Sugarcane Production (Houma, LA)

Weed Ecology, Management, Application Techniques and Ground Water Quality on Irrigated Coastal Plain Crops (Tifton, GA)

Nematode Management Strategies to Reduce Nematicide use on Agronomic Crops of the Southeast (Tifton, GA)

Stone Fruit Breeding and Protection from Insects (Byron, GA)

Modeling and Computer Simulation of Integrated Management Systems for Insects, Ticks and Mites Affecting Man and Animals (Gainesville, FL)

Projects Proposed for 1992

Area-wide Management of Lettuce Infectious in the Desert Southwest (Salinas, CA)

Integration of Agronomic and Pest Management Strategies to Increase Efficiency and Reduce Chemical Usage in Cotton (Weslaco, TX)

Biological Control of the Ring Nematode Criconemella Xenoplax (Byron, GA)

Suppression of Boll Weevils with An Adult Annihilation System (Mississippi State, MS)

Automation of Stored-Grain Insect Population Monitoring with Acoustical Sensors (Manhattan, KS)

Pilot Testing of a Novel Biocontrol Formulation Against Selected Soilborne Plant Pathogens Causing Diseases of High Value Solanaceous and Cucurbit Crops (Beltsville, MD)

Area-wide Management of Heliothis Virscens Through Genetic Sterilization and Release (Stoneville, MS)

Pilot Test of Biological Control of Stored Product Pests (Savannah, GA, Beaumont, TX, and Manhattan, KS)

BELTSVILLE AGRICULTURAL RESEARCH CENTER

Question: Please identify each of the program budget increases that you are requesting for the Beltsville Agricultural Research Center and describe what is planned to utilize each increase.

Answer: Being ARS' premier research facility, ARS is proposing a total of $3.8 million increase in FY 1992 for the Beltsville Agricultural Research Center, consisting of:

1. $300,000 for research on development of microbial enzymes for the disposal of rinseates and degradation of pesticide wastes.

2. $500,000 for research to devise improved fertilizer management strategies under various conservation tillage systems. Also, for research to develop water management models, methodologies, and strategies to reduce nutrient and pesticide contamination of shallow groundwater, stream, and wetland enivronments.

3. $500,000 for research to develop innovative methods for assessing the health risks associated with naturally occurring groundwater contaminants and pesticide residues. Also, for research to determine comparative health risks of natural occurring goundwater contaminants and manufactured chemicals.

4. $200,000 for research to develop linkage between general circulation models and basin hydrologic models in cooperation with the NASA Earth Observing System research program.

5. $400,000 for research to develop improved models based on fundamental processes to predict groundwater recharge, snow accumulation and melt, rainfall-elevation interactions and evapotranspiration as they affect stream flow.

6. $300,000 for research to determine benefits and hazards of gypsiferous power plant wastes to fruit quality and quantity and for research to develop guidelines for application of wastes to increase water use efficiency.

7. $500,000 for research to develop new and biologically based systems for managing insect weed pests in vegetable crops.

8. $300,000 for research to develop strategies for reducing the incidence of zoonotic diseases, such as toxoplasmosis, trichinosis, and cysticercosis.

9. $300,000 for research to develop methods to lower amounts of lead, cadmium and other toxic elements in foods of plant origin, including grains, oilseeds, and leafy vegetables.

10. $500,000 for research to develop anaerobic systems to generate methane and recycle nutrients from animal wastes into crop production systems.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

NATURAL PRODUCTS RESEARCH

Question: The 1990 Farm Bill contains language empowering the Secretary of Agriculture to (1) conduct fundamental and applied research related to the development of new commercial products derived from natural plant materials for industrial, medical and agricultural applications and (2) participate with colleges and universities, other federal agencies and private sector entities in conducting such research.

Has ARS developed any strategy to implement such a program of research and collaboration? What would be the projected cost of an initiative in natural products research at ARS?

Answer: ARS has a robust program of research directed toward the development of natural products for use in agriculture, medicine and industry. To facilitate collaboration with groups outside ARS, an internal coordinating system is being structured: an ARS "institute-without-walls" will link the activity of research teams and so bring together the full force of ARS natural products work. ARS already has a substantial portion of base funds allocated towards natural products work such as biosafe pesticides ($23 million) and natural food additives ($1 million approximately).

Question: The Natural Products Center at the University of Mississippi will provide a focused program to discover and develop natural products for agricultural and biomedical applications. How will ARS relate to and work with the Natural Products Center?

Answer: Natural products work at the University of Mississippi is being centered on the Research Institute of Pharmaceutical Sciences (RIPS). Several seminar interchanges and research discussions have already taken place between ARS and RIPS. Plans for collaboration will highlight complementary strengths, namely, ARS for expertise in natural biosafe agroproducts research and RIPS for pharmaceutical product research.

Question: The involvement of the private sector is an essential component of any successful development and commercialization program of biosafe natural product pesticides. The Natural Products Center at the University of Mississippi is developing a Consortium to recruit active private sector involvement in development of natural products.

In what respect will ARS participate in this Consortium?

Answer: ARS will have an ideal role to play in the establishment and operation of a Natural Products Development Consortium (NPDC). Since the Board controlling the NPDC will include an ARS representative, the NPDC will have a close connection with ARS expertise in regard to natural biosafe products for agriculture and other highly targeted research of commercial interest such as natural colors, flavors, preservatives and fragrances.

Question: Safer and less environmentally impacting pesticides are required if we are to maintain the level of productivity of U.S. agriculture without at the same time poisoning our environment. Is the U.S. taking a lead to develop biosafe natural product agrochemicals or are we falling behind our international economic competitors in this area? What are the likely consequences if we just let our competitors do it?

Answer: ARS is well aware of international economic competitors in natural products discoveries. Pest control is crucial for maintaining agricultural productivity. Because of environmental concerns, biopesticides are being sought by industry

as adjuncts to or substitutes for chemicals. We have identified this trend as offering potential market niches for ARS technology. Already there is a considerable body of ARS research work on biological control which is providing natural biosafe agroproducts of commercial interest. Bioprocesses for manufacturing these products via fermentation and tissue culture are being developed by ARS. Other biosafe natural products will be developed from new crops as well as isolation of useful biosafe natural chemicals from classical crops. Future scaleup of these biosafe chemicals will be carried out by ARS or in conjunction with various collaborators as appropriate. If we permit foreign competitors to take over markets for natural biosafe agroproducts, the U.S. will be in the invidious position of importing such strategically important products; moreover, the negative effects on the U.S. trade balance would be undesirable.

PEST CONTROL RESEARCH

Question: In view of the loss of pesticides due to increasing pesticide resistance, to the high cost of re-registration, and to actions taken by EPA to ban or significantly reduce the use of some pesticides, what program changes are you recommending to insure that farmers will continue to have effective pest control tools?

Answer: There are a number of program actions which we are funding to insure farmers will continue to have pest control tools. They include:

Increase pesticide application technology research to reduce rates of active ingredient/acre and drift to non-target areas which will prevent EPA from taking action to ban or restrict use of certain pesticides. This includes sensors to determine exactly where to spray, that is, to eliminate broadcast spray treatments;

Increase research in integrated pest management pilot test program to facilitate transfer of new technology to industry and producers;

Increase minor use registration research to maintain or obtain registrations which industry will not support because of limited markets;

Increase biocontrol research to develop alternatives to pesticides;

Continue integrated pest management research and development on alternative methods of pest control, including alternating of pesticides to decrease or eliminate the occurrence of pest tolerance; and

Continue conservation tillage practices which help reduce certain pests.

Question: Please provide for the record a summary of ARS' annual expenditures for pest control research, by the five pest-management targets for the fiscal years 1982 through 1992. Also, please list all pest control projects terminated and those

initiated from 1982-1990 and indicate if any of the funds from terminated projects were redirected to non-pest-control research.

Answer: ARS' annual expenditures for pest control research, by the five pest management targets for the fiscal years 1982 through 1992 are listed below. Also, pest control projects initiated and terminated are provided for the period of 1983-1991. Funds released from terminated projects were generally directed to new pest control projects but in some cases were directed to non-pest control research.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

Pest Control Research
Funds Available
($000)

Year	Target I	Target II	Target III	Target IV	Target V	Total
1982	36,099	50,130	18,400	7,487	697	112,813
1983	36,705	51,254	18,144	7,307	443	113,853
1984	39,492	53,790	18,420	7,450	603	119,755
1985	39,692	55,040	18,420	7,750	603	121,505
1986	30,753	40,354	13,202	4,890	657	89,656
1987	31,110	42,309	12,802	4,361	787	91,369
1988	32,104	41,665	13,938	4,453	1,081	93,241
1989	32,127	40,046	13,905	4,524	1,161	91,763
1990	32,605	42,017	19,296	4,731	1,342	99,991
1991	30,814	42,227	16,895	5,427	1,311	96,674
1992	30,814	43,727	19,845	5,727	1,311	101,424

Note: Targets I, II, and V are for nonchemical research and targets III and IV are for chemical research.

Pest Control Research Projects Initiated 1983-1991

Use of Hybrid Boophilus Ticks to Eradicate Native Southern Cattle Ticks

Augmentative Releases of Lygus Parasites in Seed Alfalfa

Biocontrol of the Caribbean Fruit Fly

Pilot Test to Eradicate Mediterranean Fruit Fly From Kauai and Niihau by Sterile Insect Release

Pseudomonads as a Biological Control Agent for Downy Brome in Winter Wheat

Selective Chemical Suppression of Feral Africanized Honey Bees

Development of Entomopathogenic Nematodes as Insecticides of White Grubs in Turf

Effects of Mycorrhizal and Biocontrol Agents on Root Diseases and Physiologic Stress of Horticultural Transplants

Technology Transfer of Expert System Peanut

Pilot Test to Integrate Parasitoid Augmentation and Sterile Fly Releases

Integrated Pest Management of Stable and House Flies in Beef Cattle Feedlots in the Midwest

Integrating Conservation Tillage and Pest Management with Irrigated Cotton, Soybean and Triticale

Feasibility of a Computer Bioeconomic Model for Weed Management Decisions for Corn Producers

Biological Control of Pecan Insects Using Early Legumes, Predator Releases and Applications of Nematodes

Area-Wide Management of Heliothis SPP. Through Application of NPV on Early-Season Alternate Hosts

Implementation and Economic Evaluation of a Pest Atmospheric System Model for the Corn Belt

Effect of Postharvest Calcium Treatment of Apples on Storage Decay and Quality

Minor Use Pesticides Umbrella Project

Control of Small Fruit Diseases in the Southeast

Analyses for Pesticide Residues in Minor Crops from Experimental Applications

Nematode and Disease Control on Minor Food Crops and Ornamentals
Chemical Analysis of Residues of Pest Control Chemicals in Crops for Minor Use Registration

Herbicide and Growth Regulator Evaluation Data for National Registration

Minor Use Pesticide Investigations

Minor Use Pesticides for Crops in the Northwest

Evaluate Acaricides, Insecticides, and Herbicides to Support Registration on Minor Use Crops

Coordination of Research on Minor Use Pesticide Registration

Testing Minor Use Pesticides for Phytotoxicity on Horticultural Crops

Minor Use Pesticide Special Research Project -- Ornamental Entomology

Efficacy and Phytotoxic Effects of Pesticides on Nursery Crops

Testing of Minor Use Pesticides on Vegetable and Sugar Crops

Herbicide Efficacy and Residues in Minor Acreage Crops

Herbicide Efficacy and Residues in Minor Acreage Crops

Minor Use Pesticides - Food/Insects

Fate, Biochemical & Environment Manifestation of Herbicides Useful in Controlling Perennial Plants

Improve Application Technology, Reduce Pesticide Rates, and Prevent Movement from Target Sites

Biotic and Abiotic Factors Essential to Control the Potato Diseases Ring Rot, Early Dying and Scab

Biological Control and Management of Colorado Potato Beetles and Aphids

Controlled Release Herbicide Formulations - Their Efficacy & Role Reducing Groundwater Contamination

Improvement Evaluation and Propagation of Landscape Trees

Mechanism in the Genetic Control of Resistance and Immunity to Avian Coccidiosis

Protection Against Avian Coccidia; Influence of Host-Parasite Interactions and Immunization

Identification of DNA Sequences for the Diagnosis and Classification of Helminth Parasites

Ecology, Population Dynamics & Control Arthropod Vectors in Areas of High Lyme Disease Incidence

Integrated Strategies for the Management of Filth Breeding Flies on Dairy Farms and the Development

Biochemistry and Physiology of Livestock Insects

Managing Populations of Acari Harmful to Poultry

Degradation of Organic Pesticides by UV Light, Ozone and Microbial Metabolism

Biochemistry and Molecular Biology of Pesticide Metabolism in Soil and Water

Influence of Tillage Practice on Pesticide

Modeling Transport of Toxic Chemicals from Agricultural Environment to Foods of Animal Origin

Multiresidue Methods for Pesticides in Meat and Meat Products

Biocontrol of Plant Parasitic Nematodes to Reduce Ground Water Contamination from Nematicides

Bacteria As Biocontrol Agents of Nematodes and Replacements to Grdwater Contaminating Nematicides

Taxonomic Service for Insects and Mites

Evaluation, Enhancement, and Release of Potato and Vegetable Germplasm

Systematics of Aphids, Whitefiles, Thrips, Scales, and Mites of Importance to Agriculture

Systematics of Wasps, Termites, and Katydids of Agricultural Importance

Systematics of Flies of Importance in Biological Control, Agricultural Crops, and Forests

Systematics of the Moths and True Bugs of Importance to Agriculture

Systematics of Beetles of Agricultural Importance: Ladybeetles, Weevils, Seed Weevils, Leafbeetles

Genetic and Cytogenetic Engineering of Basic Germplasm of Medicago Sativa and Related Species

Databases for Documentation of Introduced Invertebrates of Importance to Biological Control of Pest

Maintenance and Multiplication of Potato Germplasm for Yield, Quality, Pest & Stress Evaluations

Breeding Potatoes for Improved Pest Resistance, Quality, and Environmental Stress Factors

Virus Molecular Genetics and Cell Culture Systems for Insect Pest Management

Stable Resistance to Highly Variable Pathogens of Bean and Lima Bean

Mechanism of Action of Microbial Pest Control Agents Against Plant Pathogens

Biology and Control of Parasitic Mites and Diseases of Honey Bees

Insect Resistance in Alfalfa, Cool Season Forage and Turfgrasses and Soybeans

Biological Chemistry of Pheromones in Lepidopteran Insects

Discovery, Elucidation and Synthesis of Chemicals that Elicit Behavioral Responses in Target Insects

Isolation, Identification and Synthesis of Selected Phytochemicals Affecting Insect Behavior

Molecular Control of Plant Membrane Lipid Composition and Metabolism by Herbicides and Chilling

Identification, Metabolism and Bioactivity of Molting and Juvenile Hormones of Nematodes

Effects of Biological and Environmental Factors on the Ability of Viruses to Control Pest Insects

Biocontrol of Armored Scales, Vegetable Ornamentals, and Row Crop Pests

Biocontrol of Purple Loosestrife and Other Weeds of Pastures, Forage Crops and Noncroplands of NE U.S.

Investigate the Hormonal Control of Insect Development by Ecdysteroids and Neuropeptides

Discovery and Development of Novel Growth Regulators and Behavioral Chemicals for Insect Control

Bacillus Thuringiensis Toxins: Novel Activities and Environment

Nematodes for Biocontrol of Pest Insects and Taxonomy of Insect Parasitic Nematodes

Neurophysiological Regulation of Insect Development, Reproduction, and Diapause

Isolation and Characterization of Insect Neurohormones

Development of Microbial Pest Control Agents (MPCAS) as Alternatives to Chemical Pesticides

Discovery and Elucidation Factors Regulating Reproductive Behavior in Insects

Mollicutes and Associated Insect Biology: Molecular Approaches to Pest Insect and Plant Disease Control

Determine Effect of Allelochemicals and Microorganisms on Potato Beetle Behavior and Survival

Technology for Real Time Measurement of Pesticide Distribution and Drift

National Agricultural Pesticide Impact Assessment Program

Elucidation and Enhancement of Natural Internal Mechanisms of Resistance to Postharvest Decay

Biology, Ecology and Management of Nematode Parasites of Potatoes

Development and Effect of Weeds in Cropping System and Edaphic and Microclimate Interactions

Host Plant and Aphid Vector Influences on the Epidemiology and Transmission of BYDV

Bioprocess Development for Natural Biopesticides and other Value-added Products

Biological Control of Weeds Using Exotic and Endemic Plant Pathogens

Biology of Weeds and Biological Control with Natural Product Chemicals

Physiology, Biochemistry and Regulation of Germination, Growth, and Senescence of Weeds

Host-Parasite Interaction, Genetics, and Bioregulation of Exotic and Fungal Plant Pathogens

Investigations of Selected Foreign Plant Pathogens Which Pose a Threat to U.S. Agriculture

Study of Important Exotic Plant Viruses That Present a Potential Threat to Major U.S. Crops

Biological Control of Gypsy Moth; and Quarantine Evaluation of Introduced Beneficial Insects

Classical Biological Control of Insect Pests of Vegetable, Forage, and Field Crops

Genetics and Development of Improved Vaccinium

Mechanization for Deciduous Tree Fruits and Brambles

Vegetation and Soil Management in Fruit Production

Host Resistance and Stress Adaptation in Fruit Crops

Small Grain Insect Control in the Eastern Soft Winter Wheat Region

Weed Control in Minimum Tillage and Herbicide Formulations to Reduce Groundwater Contamination

Development of Soybean Germplasm and Production Systems for Highyield and Drought Prone Environments

Biology, Epidemiology, Genetics, and Control of Viruses and Mollicutes Causing Diseases of Corn

Biological, Microclimate, and Transport Processes Affecting Pest-Control Application Technology

Improved Application Technology for Agricultural Pesticides

Management of Insect Pests of Horticultural Crops

Develop Integrated Pest Management Systems to Maintain Ground Water Quality

Soybean Cyst Nematode Variability, Population Dynamics, and Methods for Efficient Control

Weed Management Technology for Corn and Soybean Production Systems

Molecular Genetics of Plant Cell Wall-Degrading Enzymes for Enhancement of Mycoherbicides

Semiochemical Tools for Managing Selected Nitidulid and Curculionid Beetles

Genetic Mechanisms in Corn

Enhancement of the Effectiveness of Microbial Insecticides

Genetic Studies to Enhance Usefulness of Entomophagous Insects

Biochemistry of Venomous and Enzymic Material Produced By Parasitoids

Biocontrol of Weed Seedlings and Reproductive Structures with Microbial Agents

Effects of the Soil Biological Components on Soil Structure, Transport Processes and Groundwater

Integration of Physical-Chemical-Biological Interactions to Evaluate Soil and Crop Management

Host Plant Resistance to Corn Insects

Biological Control of Corn Insects: Conservation and Enhancement of Indigenous Entomopathogens

Dispersal, Development and Management of Insects Pests of Corn

Disease Control Strategies for Dry Bean

Disease Control Strategies for Dry Bean

Agricultural Chemicals & Groundwater Quality as Mediated by Tillage & Crop Residue

Alfalfa Germplasm Evaluation

Wheat Genetics and Improvement

Develop Breeding Systems to Enhance Biological Efficiency in Alfalfa

Epidemiology of the Cereal Rusts

Determine Specificity Factors in Rusts and Powdery Mildews of Cereals

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Molecular Genetic Basis of Specificity in Cereal Rusts

Herbicide Mode of Action to Improve Weed Control

Carrot Germplasm Enhancement, Genetic Modification and Biochemistry

Allium Germplasm Enhancement, Genetic Modification and Biochemistry

Reduce Stored Product Insect Losses Through Sampling for Improved Pest Management Systems

Discover and Evaluate Biological Agents to Control Selected South American Pests

Discover and Develop Biocontrol Agents for Leafy Spurge

Discover and Develop Biocontrol Agents for Alien Weeds in the U.S.

Insect Parasite and Predator Investigations in Korea

Field Ecology, Population Biology, and Population Dynamics of Screwworms in Tropical Environments

Screwworm Genetics and Strain Development

Physiological Aspects of Screwworm Attraction and Nutritional (Growth) Requirements

Chemistry of Attractants and Toxic-Bait Systems

Evaluation of Stone Fruit Germplasm for Important Horticultural & Genetic Characteristics

Genetics and Improvement of Scions and Rootstocks for Prunus and Vitis

Reduce Phytotoxicity & Physiological Deterioration to Nectarines, Melon, Citrus, Grapes and Sweetcorn

Chemical, Physical & Microbial Control of Botrytis & Monilinia in Stone Fruits & Grapes for Marketing

Develop Chemical Methods for Insect Disinfestation of Stone Fruits and Citrus for Exports

Physical Control: Controlled Atmosphere Heat & Cold for Dried Fruit, Nut and Nectarine Pests

NPV, Bacillus Thuringiensis, Nematodes to Reduce Postharvest Insect Losses to Fruits and Nuts

Integrated Pest Management, Basic Biology for Codling Moth on Walnut, Dried Fruit & Nectarine

Determine Crop Responses to Zone Production Systems

Determine Effects of Zone Production Systems on Weeds & Beneficial & Detrimental Soil Organisms

Sugarbeet Genetics and Improvement for Host

Genetics and Breeding of Cucurbits and Crucifers

Genetics and Breeding of Lettuce and Other Leafy Vegetables

Etiology and Epidemiology of Sugarbeet Diseases

Influence of Environmental Variables on Uptake and Efficacy of Aquatic Herbicides

Action of Growth Regulators in Control of Leaf Development in American Pondweed

Control Reproduction & Overwintering in 3 Aquatic Weed Genera: Hydrilla, Potamogeton, Myriophyllum

Influence of Environmental and Biological Factors of Life Cycle Stages for Aquatic Weed Species

Deciduous Fruit, Nut Tree and Grape Diseases

Pesticides Transport as Related to Quality of Surface and Groundwaters in Irrigated Areas

Irrigated Desert Research

Genetics of Tephritid Fruit Flies

Alternative Methods of Eradication of Tri-Fly in Hawaii

Fruit Fly Biology and Control

Ripening and Thermal Sensitivity in Tropical and Subtropical Fruits

Control of Postharvest Diseases of Papaya and Other Tropical Fruits

Infestation-free Zone Concept to Eliminate Need of Quarantine Treatment for Three Fruit Fly Species

Laboratory Rearing & Radiation and Field Eradication of Fruit Flies

Elimination of the Mediterranean Fruit Fly from Kauai and Niihau

Disinfestation Treatment for Fruit Flies and Other Quarantine Insects

Sampling Modeling of Fruitfly Populations for Control Programs Quarantine Treatments Development

Integrated Pest Management for Yellow Star Thistle Phase II

Arthropods for Biological Control of Weeds

Rapid, Chemical and Immunochemical Assays for Monitoring Drug & Pesticide Residues in Food

Conservation Tillage and Water Quality Management Systems for Subarctic Soils

Improvement of Honey Bee Pollination of Fruit and Seed Crops, Ecologically Important Plant Species

Analyses of Pest & Natural Enemy Interactions as Basis for Augmentation Approach to Crop Protection

Genetics and Germplasm Management of Plant Hosts and Their Insect Pests

Management Systems for Pink Bollworm, Sweetpotato Whitefly and Cotton insect Complexes in the West

Landscape Ecology of Rangelands

Biological Control of Root Diseases in Conservation Tillage Systems

Genetic Approaches in Wheat for yield Stability, Enhanced Quality, & Reduced Vulnerability to Pests

Germplasm, Genetrics and Physiology of Cool Season Food Legunes

Improvement of Wheat Through Control of Foliar Diseases and Smuts

Biology and Control of Weeds in Field Crops in Conservation Production Systems

Molecular and Biochemical Regulation of Wheat Grain Dormancy and Pre-harvest Sprouting

Biology and Management of Selected Tree Fruit Insects

Improved Quarantine Treatments for Cooling Moth Infesting Apples and Pears

Develop Crop Simulation Models for the Cropping Systems in the Pacific Northwest

Enhancing Disease, Pest, and Stress Resistance of Potato Germplasm

Genetic and Cytogenetic Studies on Gene Transfer in Potatoes

Viruses and Virus Disease Resistances of Potato

Soilborne Disease Control in Edible Legumes with Germplasm Development (Biological and Chemical Means)

Alfalfa Germplasm Enhancement with Emphasis on Virus Resistance in Plant Introduction Accessions

Develop Weed Management Strategies in Irrigated Horticultural Crops

Biology of Weeds in Irrigated Field Crops in the Pacific Northwest

Fertilizer, Tillage, Residue & Erosion Effects on Nutrient Conservation and Soil Productivity

Develop Criteria for Improved Tillage and Planting Machinery in the Dryland of the Pacific Northwest

Develop Production and Water Management Models for Pacific Northwest Drylands

Improved Hop Germplasm, Varieties, and Production Practices

Epidemiology of Eastern Filbert Blight of Corylus Avellana and Integrated Disease Control Strategies

Biology And Application of Beneficial Prizosphere Microorganisms on Agricultural Crop Plants

Weed Control in Forage Crops and Turfgrasses Grown for Seed Production

Epidemiology and Control of Blind Seed and Ergot in Grasses Grown for Seed

Biology and Characterization of Viruses Infectious to Seed Propagated Horticultural Crops

Diseases and Physiology of Forages and Turfgrasses Grown for Seed

Insect Pests of Grass and Forage Legume Seed Production

Development of Potato Varieties and Germplasm with Quality, Yield and Pest Resistance

Design Criteria and Integrated Management Technology for Surface and Center Pivot Irrigation Systems

Computer-Based Weed Management Expert Systems for Irrigated Crops

Dryland Cropping and Nutrient Management Systems for Optimum Soil and Water Resource Management

Epidemiology, Pathogenesis and Control of Bluetongue

Plant/Animal Interrelationships in Livestock Poisoning by Plants

Biology and Control of Plant-Parasitic Nematodes Associated with Field, Forage, and Rangeland Plant

Stabilizing HRW Wheat Production with Multiple Pest Resistant Germplasm and Control Strategies

Specificity of Bacillus Thuringiensis Toxins Toward Stored Grain Insect Pests

Genetic Analysis of Development and Insecticide Resistance in Stored Product Insects

Biochemical Regulation of Developmental Processes in stored Grain Insects

Biology and Ecology of Grasshoppers and Mormon Crickets in the Great Plains

Biological Control of Great Plains Grasshoppers and Mormon Cricket

Biology and Control of Foliar Diseases of Small Grain Cereals

Biological Control of Rangeland Weeds

Integrated Management of Stable Flies and House Flies on Confined Livestock

Development of Sunflower Germplasm with Improved Oil Quality, Disease and Insect Resistance

Crytobiology and the Preservation of Germplasm of Insects

Development of Increased Genetic Variability for Pest Resistance and Other Traits of Wheat

Molecular Genetic Approaches for the Transformation of Pest and Beneficial Insects

New Biotechnologies for Genetic Enhancement of Sugarbeet

Barley Enhancement Through Cellular Molecular and Whole Plant Genetics and Germplasm Evaluation

Sunflower Disease Resistance and Yield Losses

Host-Plant Resistance and Management Systems for Insect Pests of Sunflower in the Northern Plains

The Genetics of Natural Insect Populations and Modern Methods

Bioregulation of Insect Cuticle Formation

Phytotoxicity and Action of Natural Products in Plant Growth and Development

Biochemistry of Herbicide Detoxification, Synergism, Protection and Cross-Resistance in Plants

Mechanism of Action of Natural Products, Herbicides and Growth Regulators in Plants

Natural Products Chemistry and Action of Bioactive Compounds

Hormone-Neurohormone Interactions Affecting Development, Diapause, and Reproduction

Metabolism of Hydrocarbons, Novel Alcohols, and Wax Esters During Growth, Metamorphosis, Diapause and Reproduction

Physiology, Biochemistry and Behavioral Responses of Screwworms to Natural Attractants and Semiochemicals

Development of Genetic Sexing Mechanisms for Use in Screwworm Eradication

Interactions of Insect Feeding and Tillage Systems with Plant Growth, Development, Stress and Yield

Develop New Control Strategies for Diabrotica Spp. and Cereal Aphids

Improved Technology for Aerial Application of Pest Control Materials

Occurrence, Movement and Management of Field Crop Insect Pests

Develop Weed and Brush Management Technology for Rangelands While Maintaining Ground Water Quality

Development of Nonchemical Technologies that Contribute to Control of Verticillium Wilt in Cotton

Biological Control of Dung-Breeding Flies Affecting Cattle on Pasture

Physiological Approaches to the Management of Resistance in Livestock and Household Insect Pests

Incurred Drug and Pesticide Residues in Animal Tissues and Fluids

Methodology Development for Analysis of Drug and Pesticide Residues in Food Animal Products

Development of Rice Insects Control by Selective Germplasm, Chemical, and Biological Methods

Bionomics and Control of Stored-Product Insects in Rice

Population Characteristics and Management Practices of Honey Bees with Africanization

Integrated Weed Management Systems to Protect Groundwater Quality

Technology for Mass Propagation of (In Vivo and In Vitro) Quality Assured Biological Control Agents

Bioactive Substances to Manage Insects Based on Quantitative Population Ecology of Cotton Pests

Biological Methods for Managing Cotton Insect and Mite Pests

Biology and Control of Ticks of Regulatory Importance

Biology and Control of Cattle Grubs and Related Flies

Biology and Control of Biting Flies Affecting Livestock

Immunological and Microbiological Control of Arthropod Parasites of Livestock

Management of Wildlife of Ticks that Transmit Diseases of Medical and Veterinary Importance

Biological Control of Range Weeds and Brush

Development of Genetic Resistance to Diseases and Insects in Pecan

Evaluation of Peanut Germplasm for Improved Tolerance to Biological and Environmental Stress

Evaluation of Peanut Germplasm for Improved Tolerance to Biological and Environmental Stress

Supression of Septoria Tritici Blotch of Wheat by Epiphytic Bacteria

Integrated Pest Management of Russian Wheat Aphid with Emphasis on Host Plant Resistance

Biological Control of the Russian Wheat Aphid

Endocrine Regulation of Adrenal, Gastrointestinal and Utero-ovarian Function in RuminaNts

Develop Adult Control Technology for Corn Earworm and Other Noctuid Pests of Horticulture Crops

Evaluate and Enhance Rice Germplasm for Efficiency, Profitability, and Nutrition

Improved Weed Management Systems for Rice

Forage/Livestock Research for Hill-land Family

Persistence and Activity of Herbicides in Soil and Factors Affecting Movement to Groundwater

Develop Germplasm and Soil and Water Management to Improve Soybean Production in the Mid South

Host Plant Resistance to Soybean Insects

Develop Soybeans that are Pest Resistant and Stress Tolerant to Improve Production in the South

Biological and Genetic Control of Crop Pests Emphasizing Heliothis

Development of Innovative Technology for Safe and Effective Application of Pesticides to Field Crops

Develop Application Technology to Reduce Herbicide Use and Improve Weed Control in Conservation Tillage

Improved Technology for Application of Agricultural Insecticides

Development of Integrated Methods for Insect Pest Control to Improve Crop Production Efficiency

Mechanisms of Action and Resistance to Herbicides, Allelochemicals and Phytotoxins in Weeds and Crops

Microbiological Control of Agronomic Weeds

Control Strategies for Heliothis/Helicoverpa Spp. and Other Field Crop Insects in Cotton Agroecosystem

Mass Propagation Technology for Control of the Boll Weevil and Heliothis

Small Fruit Cultural and Genetic Research in the Mid-South

Muscadine Grape Research

Genetic Enhancement for Resistance to Insects, Nematodes, and Diseases in Cotton

Disease Resistance for Corn in the South

Insect and Nematode Resistance of Corn in the South

Develop Multiple Pest Resistant Trifolium Germplasm with Improved N_2 Fixation and Stress Tolerance

Biology and Ecology of Viruses, Fungi, and Nematodes on Forage Legumes in the Humid South

Development of Boll Weevil Pheromone and Sensory Behavior for Improved Trapping Efficiency

Field Evaluation of Sterility and Other Suppression Technology

Improve Existing and Develop New Technical Components for APHIS BW Eradication Program

Biochemistry and Genetics of Host Plant Resistance to Insects, Diseases, and Nematodes

Evaluate and Develop Improved Erosion Control Practices and Systems for Upland Fields and Watersheds

Effect of Conservation Tillage on Surface and Subsurface Pesticide and Nutrient Transport

Determine Effect of Chemical Transport Processes on Water Quality and Ecology of Agri Watersheds

Developing Principles and Systems of Weed Control and Cultural Practices for Sugarcane Production

Disease and Insect Control Mechanisms for the Enhancement of Sugarcane Germplasm Resistance

Water Management for Improved Groundwater Quality and Farm Chemical Use Efficiency

Development of Host Resistant Germplasm to Manage Soybean Cyst Nematodes

Develop Improved Formulations for Living Biological Control Agents

Develop New and Improved Formulations of Pesticides for Protection of Groundwater Quality

Development of Biological Active Peptides as Biorational Pesticides

Germplasm Development, Environmental Stresses and Cultural Practices for Cuphea

Genetic Improvement of Corn, Sorghum, and Other Forages for Resistance to Insects and Aflatoxin

Genetic Approaches for Managing the Corn Earworm, Heliothis Zea and the Fall Armyworm, S. frugiperda

Manage Diseases in Forage and Turf Ecosystems

Field Crop Insect Control via Management Inputs Delivered in Irrigation Water and by Conventional Application Methods

Weed Ecology, Management, Application Technology and Groundwater Quality on Irrigated Coastal Plain Crops

Reduced Chemical Residues in Tobacco Leaf Through Reduced Pesticide use by Genetic and Cultural Methods

Plant Resistance and Germplasm Enhancement for Insect Pests of Southern Crops

Fall Armyworm: Suppression of Overwintering Populations

Biology-Ecology of Field Crop Insects and Performance of Associated Beneficial Organisms

Weed Management, Herbicide Application Technology and Groundwater Quality in Horticultural Crops

Nematode Ecology, Management Systems, and Nematicide Application Technology on Irrigated Crops

Nematode Management Strategies to Reduce Nematicide use on Agronomic Crops of the Southeast

Weed Biology, Ecology, and Management Systems for Peanuts and Rotation Crops in the Southeastern Coastal Plain

Develop Methodology and Systems for Increasing the Productivity and Quality of Peanuts

Develop Safe Protective Treatments to Protect Woolen Fabric and/or Other Keratinous Materials from Insects

Identify and Develop the Biologically Active Chemical Constituents in Foodstuffs for Insect Control

Assessment of New Pesticides, Repellents, Attractants and Resistance to these Materials in Insects

Evaluate and Develop Application Techniques of Fumigants for the Control of Stored-Product Pests

Evaluate and Assess Pesticide Chemicals for Disinfestation of Commodities, Storage, Processing and Transportation Facilities

Residue Methodology and Data for Experimental Chemical Treatments to Control Stored-Product Insects

Natural Environmental Factors Controlling Insect Survival and Multiplication in Farm-Stored Corn

Developmental Inhibitors of Stored-Product Insects

Control of Stored-Grain Pests by Mass Release of Beneficial Insects

Development of Methods to Protect Packaged Agricultural Products from Insect Infestation

Stone Fruit Breeding and Protection from Insects

Deciduous Fruit Improvement and Protection from Pests

Pecan Physiology, Culture, and Variety Development

Peach Decline as Related to Diseases, Nematodes, and Host Physiology

Pecan Aphid Control

Alternative Controls for Arthropod Pests of Pecan in the U.S.

Molecular, Genetic, and Tissue Culture Investigations in Corn and Sorghum

Enhancement of Pest Resistance and Adaptation of Soybeans for Southeastern U.S.

Bioregulation of Growth and Development of Pest and Beneficial Insects

Behavioral Ecology and Population Dynamics of Crop Insects and Their Parasitoids

Disruption of Insect Behavior by Interference with Sensory and Central Nervous System Processes

Behavioral Ecology and Management of Crop Insect Pests with Semichemicals

Integrated Management Systems for Filth Flies Affecting Man and Animals

Microbial Control of Mosquitoes and Gnats Affecting Man and Animals

Personal Protection Strategies and Repellents against Arthropods Affecting Man

Integrated Management Systems for Mosquitoes and Gnats Affecting Man and Animals

Integrated Management of Imported Fire Ants

Biology and Ecology of Imported Fire Ants

Imported Fire Ant Behavior, Physiology, and Biochemistry

Dispersal, Attraction, and Control of Stable Flies in Semirural Environments

Biology and Integrated Management of Domestic and Periodmestic Cockroaches and Fleas in Urban Environment

IPM of the Formosan Subterranean Termite and Other Urban Pests in Hawaii

Bioregulation of Growth and Development of Stored Product Insects

Physiology, Behavior, Ecology, and Gene Activity of Male Secretions in Stored-Product Insects

Genetic Manipulation of Citrus Germplasm to Develop Superior Scions and Rootstocks

Detection Epidemiology and Host-Pathogen Interaction of Scion-Associated Diseases of Citrus

Influence of Soil, Rhizoshere Organism, and Host on Soil Borne and Blight Diseases of Citrus

Germplasm Enhancement and Its Use in Variety Development for Sugarcane Production Systems

Biological Control of White Grubs and Plant Resistance to the Sugarcane Borer in Sugarcane

Integrated Management Technology to Control Aquatic Weeds While Maintaining Water Quality

Biological Control of Aquatic and Wetland Weeds for Groundwater Quality Protection

Introduction, Preservation, Distribution, and Evaluation of Tropical and Subtropical Plant Species

Improvement of Tropical and Subtropical Fruit Crops

Development of Quarantine Treatments for Subtropical Fruits Infested with Fruit Flies

Non-Chemical Quarantine Treatments for Anastrepha Fruit Flies in Tropical and Subtropical Fruits

Breeding Better Sweet Potatoes for the Tropics

Effects of Environment on Weed/Crop Competition and Competitive Ability

Plant Cytochrome P-450 Monooxygenases and their Interactions with Herbicides

Genetics of Disease Resistance, Epidemiology, and Control of Fungal Pathogens of Small Grains

Biological Control of Foliar Pathogens of Tobacco and Other Crops

Biological and Chemical Control of Insects that Damage Tobacco and Other Agricultural Products in Storage

Insect-Host Plant Interactions and Pest Management Research in Tobacco

Evaluation and Genetic Improvement of Cotton Germplasm for Yield, Quality, and Pest Resistance

Genetics and Germplasm Enhancement of Leguminous and Solanaceous Vegetable Crops

Improvement of Sweet Potato and Cucurbits for Pest Resistance, Quality, and Adaptive Characteristics

Production Efficiency of Vegetable Crops Through Nematode and Disease Resistance

Weed Control in Vegetable Crops: Herbicide Tolerance and Allelopathy

Genetic and Allelochemical Factors Conferring Disease and Pest Resistance in Vegetable Crops

Pest Control Research Projects Terminated from 1983-1991

Efficacy of Using Inherited Sterility for Suppressing Seasonal Population Increases of H. Zea

Formulating and Applying Weed Pathogens to Bypass Dew: A Pilot Test

Pilot Test Evaluations of Parasitoids and Sterile Fly Releases for Medfly Suppression and Eradication

Prediction and Control of Pickleworm Infestations on Cucumber

Chemical Control of Weeds in Minor Acreage Crops

Minor Use Pesticides - Food/Insects

Fate, Biochemical and Environmental Manifestation of Herbicides Useful in Controlling Perennial Plants

Genetic Engineering for Virus Resistance

Multiline Cultivars as an Alternative to Fungicidal Control of Wheat Stem and Leaf Rusts

Control of Stored Grain Insects by Combining Traps, Attractants and Repellents

Integration of Edovum Puttleri into Pest Management Programs for Colorado Potato Beetle Control

IPM System for Crop Production in Eastern Corn Belt

Integrated Pest Management of Muscoid Fly Pests on Dairy Farms in the Northeast

Pilot Test--Pink Bollworm in Cotton

Area Wide Management of H. Zea and H. Virescens by Pheromone Trap Calibrations

Area wide Management of H. Zea and H. Virescens by Pheromone Trap Calibrations
(MU: Southern Insect Management Research and Insect Biology/Management Systems Research.)

Validation of Weed and Pesticide Models in Irrigated Crops

Pest Management of Sweetpotato Whitefly on Cotton and Vegetables to Reduce Economic Losses

Pest Management of Sweetpotato Whitefly on Cotton and Vegetables to Reduce Economic Losses

Movement of Herbicides to Groundwater in Irrigated Crops

Phytotoxicity Testing of Fungicides and insecticides on Horticultural Crops

Phytotoxicity Testing of Herbicides on Horticultural Crops in ARS Minor use Pesticide program

Minor Use Pesticide Tests on Vegetable and Sugar Crops - Salinas

Research to Support Registration of Minor use Pesticides

Analytical Investigations of Chemical Residues in or on Crops for Minor Use Registration

Efficacy and Phytotoxicity Effects of Fungicides on Nursery Crops

Minor use Pesticide Residue Investigations

Minor use Pesticides for Crops in the Northwest

Cyromazine FED to Dairy Calves for Fly Control in Outdoor Hutches

Efficacy of Amitraz for the Honeybee Tracheal Mite Acarapis Woodi and Assay of Residues in Honey

Evaluation of Herbicides to Support Registration for use on Minor Use Crops

Efficacy and Phytotoxic Effects of Pesticides on Nursery Crops

Control of Erythroxylum Species

Evaluation of Malus Germplasm for Sources of Insect Resistance

Chemistry and Biochemistry of Peptide Neurohormones Communication in Face Fly and Heliothis Species

Electrophysiology of Vision in Fly and tick Pests of Livestock

Northern Fowl Mite Behavior, Physiology, Biology and Control

Biochemistry of Face Fly Receptors for Adipokinetic and Diuretic Neuropeptides and for Biogenic Amines

Novel Bioassays for Evaluation of Candidate Insect Peptides, Growth Regulators and Controlled Substance

American Dog Tick Behavior, Physiology, Survival and Control

Genetic Basis of Resistance and Susceptibility to Coccidia

Identification of Nematode Parasites of Ruminants and Preparation of Keys to Helminths of Ruminants

Cloning DNA of Coccidian and Helminth Parasites for Strain Identification and Vaccine Preparation

Biology of Coccidia: Production of Monoclonal Antibodies; In Vivo and In Vitro Development

IPM Component Research for Management of Dairy Fly and Poultry Insect Populations

Biology, Control and Economic Impact of House Flies, Stable Flies and Face Flies in the Dairy Environment

Biochemistry and Molecular Biology of Pesticide Metabolism in Soil and Water

Distribution and Dissipation of Pesticides in an Agricultural Environment

Analysis of Environmental Stress at Plant Leaf and Root Surfaces by X-Ray Photoelectron Spectroscopy

Fate and Identity of Terminal Pesticide Residues in Food, Soil, and Groundwater

Environmental Fate of Pest Control Chemicals Including Exotoxins Produced by B. Thuringiensis

Genetic and Cytogenetic Engineering of Basic Germplasm of Medicago Sativa and Related Species

Germplasm Enhancement of Solanaceous Fruit Crops for Resistance to Disease and Colorado Potato Beetle

Adapt Biotechnologies for Systematics and Biocontrol: Heliothis and Africanized Honeybee

Genetic Variation, Regulation and Transfer in Bacteria for Biological Control of Insects

Genetics and Enhancement of Potato Germplasm for Productivity, Quality, and Pest Resistance

Potato Germplasm Multiplication, Stress Resistance Yield, and Quality Evaluations

Enhancement of Germplasm and Assessment Techniques of Grasses for Turf

Arthropod Viruses: Characterization, Genetics and Replication In Vivo and In Vitro

Tolerance of Soybean to Rot Caused by the Fungus Phytophthora

Discover Insect Resistant Potato and Tomato Germplasm and Determine their Effect on Insect Behavior

Etiology of European Foulbrood and Control of Wax Moths

Insect Resistance in Alfalfa, Cool Season Forage and Turfgrasses and Soybeans

Edible Legumes: Enhanced Disease Control Through Stable Resistance and Other Means

Identification and Function of Hormonal Chemicals Regulating Development and Reproduction in Insects

Hormonal Chemicals that Disrupt Biochemical Mechanisms unique to Insects and Other Arthropods

Spiroplasmas and Acholeplasmas and insect Vectors in Plant Diseases and Biocontrol

Characterization of insect Neurohormones and Related Factors

Mechanism of Hormonal Regulation of Insect Reproduction

Behavioral Chemicals as Components of Selected insect Surveillance and Suppression Systems

Natural Products as Disruptants for use in Insect Control

Uptake and Movement of Herbicides and Bioregulators to Improve Their Efficacy

Tomato Tolerance to Herbicides and Weeds

Cultural and Chemical Weed Management Technologies for Conservation Tillage Systems

Mechanisms of Host-Pathogen Interactions During Natural and Induced Resistance

Interrelationships of Plant -Parasitic Nematodes and their Natural Enemies

Synthesis of Potentially Insecticidal Alkoxyphenylnonanes and Alkoxyphenylnonenes

Pheromones and natural Behavior Modifying Chemical Communicators of Helminths of Plants

Genetic Manipulation of Biocontrol Fungi

Molecular Basis of Rhizosphere Interactions Among Plant Pathogens, Biocontrol Agents and Roots

Develop Formulation and Delivery Systems for Biocontrol Fungi Against Selected Soilborne Plant Pathogen

Discover and Develop Mycoparasites for Biocontrol of Selected Soilborne Plant Pathogens

Plant-Parasitic Nematode Control through New Bioregulation Technology

Sugarcane Pathology: Nature, Mode of Action, and Control of Pathogens

Integrate Behavioral Studies with Biocontrols and Chemicals to Control Mushroom Flies

Effect of Apple, Nectarine, Strawberry, and Tomato Maturity on Fungal Latent Infection

Models for Evaluating and Enhancing Pest Resistance in Forage Crops

Strategies for Optimizing Crop Production and Maintaining Soil productivity in New England

Etiology and Epidemiology of Important Viruses that Present a potential Threat to Major U.S. Crops

Variability and threat of Pathogens Causing Downy Mildew of Maize and Karnalbunt of Wheat

Management of Deciduous Tree Fruit Insect and Mite Pests

Weed Management for Soil and Fruit Productivity

Biocontrol of Fruit Diseases

Control of Leafy Spurge and Other Weeds With Natural Products

Stalk Rot of Corn and Genetics of Host-Pathogen Interactions of Corn and Sorghum

Weed Control in Minimum Tillage and Herbicide Formulations to Reduce Groundwater Contamination

Improvement, Evaluation and Propagation of Landscape Trees

Development of Soybean Germplasm Adapted to High-Yield and Drought-Prone Environments

Transmission of Insect Vectored Maize Viruses

Biologically Active Natural Products for Insect Control

Modification of Starch to Provide Controlled Delivery of Agricultural Chemicals

Weed Management Techniques for Conservation Tillage Corn/Soybean Production Systems

Genetic Mechanisms in Corn

Bionomics of Native and Introduce Natural Enemies for Biological Control of Pest Insects

Pathology and Microbial Control of Insect Pests

Genetics, Serology and Biochemistry of Entomopathogens

Biochemistry of Biological Control Agents

Genetic Selection-Manipulation to Enhance Predator and parasite Effectiveness

Weed Propagule Reduction in Soil by Microorganisms

Management of Soil Properties to Prevent Groundwater Pollution by Agricultural Chemicals

Development of Biological Control Component for Suppression of Corn Insects

Impact and Management of Insect Populations in Conservation and Conventional Corn Production System

Impact of Forecasting Long Range Transport and Adult Manipulation on Suppression of Corn Insect Pests

Economic Thresholds - Corn Insect Damage

Biology and Control of Annual Weeds in Soybeans

Wheat Genetics and Improvement

Resistance Factors Protecting Wheats from Stem and Leaf Rust

Carrot Germplasm Enhancement, Genetic Modification and Biochemistry

Onion Germplasm Enhancement, Genetic Modification, and Biochemistry

Discover and Evaluate Biological Agents to Control Selected, South American Pests

European Based Research on Biological Control of Alien Weeds in the U.S. (Leafy Spurge)

European Based Research on U.S. Weeds of Foreign Origin (Yellow Starthistle and Others)

European Based Biocontrol of Alien Weeds in U.S. Rangelands: Diffuse, Spotted, Russian Knapweed

European Based Research on Biocontrol of Alien Weeds in U.S. Pastures (Musk Thistle and Others)

Collection and Evaluation of Pathogens from Eurasia for Biocontrol of Weeds

Insect Parasite and Predator Investigations in Korea

Control Decay and Senescence of Fruits and Vegetables by Modified Atmospheres in Films and Other Systems

Physiological Mechanisms of Postharvest Disorders in Fruits and Vegetables - Effect of Environments

Physiological/Environmental Factors and Response of Lettuce to Modified Atmospheres

Chemical/Physical Manipulation of Fungal Spores to Control Postharvest Losses in Horticultural Crops

Develop Insect Pathogens for Infield and Postharvest Control of Horticultural Crop Insect Pests

Determine Efficacy of Pathogens for Control of Quarantine and Horticultural Insect Pests

Susceptability of Stone Fruit to Codling Moth Infestation and Its Relation to Export Markets

Nonphytotoxic Alternatives to EDB and MB for Control of Fruit Flies in Deciduous and Subtropical Fruits

Alternatives to EDB and MB as Quarantine Treatment for Fresh/Dried Fruits, Vegetables and Nuts

Controlled Atmospheres as Quarantine Treatments for Insects Infesting Horticultural Crops

Non-Phytotoxic Quarantine Treatments as Alternatives to EDB and MB for Fresh Fruits

Loss Reduction in Western Grown Fruits and Tree Nuts During Export and Domestic Marketing

Genetics, Cytogenetics, and Germplasm Enhancement of Sugarbeet for Host Resistance and Productivity

Biology of Sugarbeet Diseases - New Techniques

Deciduous Fruit and Nut Tree Diseases

Physiological Ecology of Aquatic Weeds as a Basis for Integrated Management Practices

Transport and Fate of pesticides and Trace Organics in Soil and Irrigation Water

Quantification of Water and Solute Transport Mechanisms in Root and Vadose Zones

Control of Arthropod Vectors of Vegetables and Fruits Other than Pome and Citrus

Arthropod Vectors of Disease Pathogens of Fruit Trees in the West

Irrigated Desert Research

Genetics of Fruit Flies and Parasitoids

IPM of the Formosan Subterranean Termite and Other Urban Pests in Hawaii

Quarantine Treatments for Tropical Fruit Flies

Preharvest Insect Control Methods as Alternatives or Supplements to Commodity Quarantine Treatments

Structure, Function and Synthesis of Insect Neuropeptides

Arthropods and Plant Pathogens as Biological Agents to Control Yellow Starthistle and Knapweeds

Integrated Pest Management for Yellow Starthistle

Chemical Bases of Phytoimmunity and Other Plant Interactions to Control Weeds

Conservation Tillage and Weed Control Systems for Cold Subarctic Soils

Ecological Relationships of Hemipterious Pests of Crops and Their Natural Enemies

Role of Biological and Environmental Factors Affecting Insect Pest Natural Enemy Interactions

Honeybee Foraging Behavior and Plant Chemistry for Pollination Efficiency of Crops by Managed Colonies

Physiology, Nutrition, Behavior and Rearing of Predaceous Arthropods

Integrated Weed Management Systems for Semiarid Regions

Genetics and Germplasm Management of Cotton Plants and Their Associated Insect Pests

Diapause Control of Pink Bollworm, Boll Weevil and Other Cotton Insects

Pink Bollworm Population Dynamics and Relation to Other Cotton Insect Species

Genetic Enhancement of Wheat for Western USA Agricultural Environments

Germplasm, Genetics and Stress Physiology of Food Legumes

Improvement of Wheat Through Control of Foliar Diseases and Smut in the Western Region

Nature and Biological Control of Wheat Root Diseases

Biology, Ecology, Control and Competitiveness of Weeds in Conservation Crop Management Systems

Physiology and Herbicide Interactions of Annual Weeds in Conservation Tillage Systems

Biochemistry and Physiology of Wheat Seed Dormancy and Pre-harvest Sprouting

Chemistry and Biology of Insect Pheromones and Other Semiochemicals

Improved Quarantine Treatments for Deciduous Fruit Pests

Germplasm Enhancement in Potatoes with Emphasis on Disease, Pest, and Stress Resistance

Developing and Evaluating Disease, Pest, and Stress Resistant Potato Germplasm

Selection Criteria for Alfalfa Improvement in the Pacific Northwest

Bean Germplasm Enhancement for Disease and Environmental Stress Resistance

Control of Soilborne Diseases of Edible Legumes

Management and Biology of Soil-borne Pathogens and Diseases of Alfalfa, Especially Verticillium Wilt

Develop Improved Integrated Weed Management System for Horticultural Crops in the Pacific Northwest

Management of Vegetation in Aquatic and Noncrop Areas

Weeds and Their Control in Irrigated Field Crops in the Pacific Northwest

Vegetation Management in Aquatic and Noncrop Areas

Fertilizer, Tillage and Residue Effects on Nutrient Cycling, Use and Soil and Water Conservation

Biology and Characterization of Viruses of Horticultural Crops, Including Edible Legumes

Diseases of Forage Grasses and Legumes Grown for Seed in the Northwest

Control of Blind Seed and Ergot in Grasses Grown for Seed

Insect Pests of Grasses and Forage Legumes Grown for Seed

Biology and Epidemiology of Foilage and Soilborne Diseases of Horticultural Crops

Development of Potato Germplasm with Resistance to Diseases and Pests and with High Food Quality

Germplasm Development, Breeding, and Genetics of Improved Spring and Winter Barley

Development, Assessment, and Multiplication of Adapted Potato Germplasm

Flow of Water and Solutes in Multidimensional heterogeneous Soil Profiles

Range Improvement to Increase Production and Conservation on Central High Plains and Rocky Mountains

Weed Management Strategies in Sugarbeets Based on Bioeconomic Modeling

Biochemical Studies and Control of Stored Grain Insects

Exotic Insects for Biological Control of Introduced Weeds

Increasing Forage Efficiency on Northern Great Plains Rangelands

Weed Management Systems to Improve Conservation Practices in Crop Production and Rangelands

Interaction of Viruses, Vectors, and Host Plants, Particularly Wheat

Integrated Weed Control in Grasslands of the Central Plains

Bioregulation of Insect Reproduction, Development and Cryopreservation of Insect Germplasm

Weed Management and Groundwater Contamination in Minimum and No-Tillage Systems for Crop Production

Bioregulation of Herbicide Detoxification and Selectivity

Photochemical and Biochemical Mechanisms of Herbicide and Plant Growth Regulator Degradation

Development, Physiology and Bioregulation of Perennial Weeds

Metabolism, Selectivity and Mode of Action of Membrane-Active Herbicides

Metabolic Reactions and Interactions of Herbicides in Plants

Bioregulation of Herbicide Metabolism and Activity in Plants

Physiological and Behavioral Responses of Screwworms to Natural Attractants and Semiochemicals

Fundamental Genetics of the Screwworm, Cochliomyia Hominivorax

Molecular Bases of Cotton Resistance to Wilt Diseases and Pests

Improved Technology for Aerial Application of Agricultural Materials

Simulation Models of Population Dynamics for Wide Area Management of Field Crop Insects

Biometeorology of the Distribution and Population Dynamics of Field Crop Insect Pests

Management of Insect Pests of Field Crops Thru Augmentation and Conservation of Entomophages

Physiology and Toxicology of Arthropod Pests of Livestock

Integrated Management of Arthropods Affecting Range Livestock

Pharmacokinetics and Metabolism of Pesticides and Mycotoxins in Livestock and Poultry

Population Ecology and Control of Insects that Attack Stored Rice

Develop Pheromones and Trapping Systems of Population Dynamics and Dispersal of Lepidoptera Spp.

Study Microbial Toxins Produced by Bacilli Species as Toxicants for Fruit Flies

Assess and Quantify Plant-Pest Interactions-Develop Subroutines for Vegetable Production Models

Biology and Control of Cattle Grubs (Hypoderma Spp.)

Biology and Control of Horn Flies and Other Biting Flies

Immunological Response of Hosts to Cattle Grubs and Biting Flies

Biology and Control of Cattle Fever Ticks

Tick Biology, Physiology, and Genetics

Biological Control of Snakeweed, Baccharis, Saltcedar, and Mesquite on Rangelands

Host Plant Resistance of Pecans to Diseases and Insects

Development of Peanut Germplasm with Improved Tolerance to Biological and Environmental Stress

Cultural and Management Effects on Yield Components of Warm-season Grasses and Legumes

Reducing Disease Stress in Monoculture Wheat

Reduction of Insect Stress to Cereals on the Great Plains

Rice Germplasm for Improved Efficiency Profitability and Nutrition

Weed Biology and Control Systems in Rice

Forage/Livestock Research for Small Acreage Production

Integrated Systems for Lone Star Tick Control

Improving Forage and Livestock Production on Arid Rangelands

Persistence and Activity of Herbicides in Soil and Factors Affecting Movement to Groundwater

Conservation Tillage and Weed Control Systems for the Mississippi Delta

Integrate Equipment, Weed Control and Cultural Practices into Efficient Crop Production Systems

Development of Genetic Systems for Enhancing the Pest Resistance and Quality of Southern Soybeans

Discover Technology to Reduce the Cost of Control of Troublesome Weeds in Conservation tillage

Control Strategies for Heliothis Spp. and Other Field Crop Insects in the Cotton Agroecosystem

Mechanisms of Action and Resistance to Herbicides, Allelochemicals and Phytotoxins in Weeds and Crops

Regulation of Weed Seed Germination to Reduce Pesticide Input and Improve Production Efficiency

Biological Control of Weeds in Agronomic Crops

Small Fruit Cultural and Genetic Research in the Mid-South

Genetic Enhancement for Resistance to Insects, Nematodes, and Diseases in Cotton

Chemistry of Host Plant Resistance to Insects, Diseases, and Nematodes

Improve Existing and Develop New Technical Components for APHIS Boll Weevil Eradication Program

Develop an Attracticide for the Boll Weevil

Pesticide Persistence, Degradation, and Transport in Agricultural Ecosystems

Biochemical and Physiological Regulation of Parasite Nematodes of Ruminants

Develop Host Resistance and Biological Control to Manage Nematodes on Soybeans

Integrate Pest Control and Ground Water Models

Assessment of Environmental and Resource Risk of Agricultural and Watershed Management Practices

Develop Disease Resistance in Forage and Turf Grasses and Legumes

Weed Biology, Ecology, Management Systems and Herbicide Application Technology on Coastal Plain Irrigated Crops

Insect Migration: Correlations of Radar Observation, Meteorology, Insect Populations, and Movement

Migration of Noctuids and Other Highly Mobile Insect Species

Nematode Pathology and Management in Agronomic Crops of the Southeastern Coastal Plain

Nematode and Integrated Pest Management Systems for the Southeastern Coastal Plain

Weed Management Systems for Peanuts and Rotation Crops in the Coastal Plain

Control of Stored-Grain Pests by Mass Release of Natural Enemies

Lab and Field Studies to Develop Insect-resistant Packages and Study Insects Affecting Packages

Develop Parameters for the Use of CO2 and N at High Ambient Temperatures and Different Relative Humidities

Insects of Pecans and Other Tree Nuts in the United States

Reducing Rust-Induced Losses to Small Grains in the Southeastern United States

Detection, Inactivation, Epidemiology and Host-Pathogen Interaction of Citrus Canker Bacterium

Biological Control of Weeds and insect Plant Interactions in Aquatic and Wetland Ecosystems

Genetics of Disease Resistance, Epidemiology, Control of Fungal Pathogens of Small Grains

Behavior, Fate, Effects, Mechanisms of Action and Basis for Selectivity of Weed Control Chemicals

Develop Techniques for he Genetic Modification of Tobacco for Improved Productivity Quality and Safety

Biological Control of Foliar pathogens of Tobacco and other Crops

Biology and Control of Insects that Damage Tobacco and other Agricultural Products in Storage

Enhanced Cotton Germplasm and Production Systems for Improved Cropping in the Southeast Coastal Plains

Insects in Changing Crop Systems and Simulation Modeling for Control in the Southeast Coast Plain

Elucidation of Pathogen, Pest, and Stress Resistances in Vegetable Crops

SOYBEAN RESEARCH

Question: Last year, the Congress appropriated $525,000 through ARS for a new effort to address specific problems faced by southern soybean producers and step up efforts to improve soybean oil and protein composition. Can you give us a status report on that project?

Answer: The $525,000 appropriated by Congress for soybean research is being implemented at several locations:

Stoneville, Mississippi: To develop improved germplasm and varieties for southern soybean producers. Higher yielding varieties with improved oil and protein content and with resistance to diseases and other pests will be developed.

Ames, Iowa: To determine the genetic regulation of oil and protein in soybean and to accelerate the development of new varieties with improved oil and protein composition.

West Lafayette, Indiana: To develop soybean germplasm and varieties for the northern production area with improved seed protein and oil constituents.

Raleigh, North Carolina: To develop enhanced germplasm and new varieties for the southern production region with improved oil and protein quantity and quality.

SOYBEAN OIL-BASED INK

Question: ARS development of soybean oil-based printing inks is a great success story, because the ink has proven good both for American agriculture and for the environment. I understand that a new ink formula has recently been perfected that eliminates petroleum products and substitutes 100 percent soybean oil. What

advantage does this new product have? With this important development, what are the future areas of opportunity in soy ink research?

Answer: With this new ARS product consisting entirely of soybean oil and pigments, 400 million pounds/year of soybean oil will replace petroleum as an ink vehicle. Soy ink has improved properties such as low rub, important particularly for newsprint. By "resinizing" soybean oil to replace petroleum products completely in news offset ink formulations, ARS has also succeeded in making news ink production costs competitive with those using petroleum. In close consultation with the American Newspaper Publishers Association, ARS has identified future areas of opportunity in soy ink research to be in flexographic inks. It is desirable, because of environmental effects, to exclude volatile organic chemicals from this increasingly popular ink. ARS is formulating a water-based soybean oil flexographic ink. Heat set inks too are being developed: collaboration with Lehigh University has been set up.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SALMONELLA ENTERITIDIS

Question: Salmonella Enteritidis continues to pose a great threat to the egg and poultry industry nationwide and in Pennsylvania. SE, as it is referred to, is suspected to be transmitted from infected laying hens directly into the interior of the egg before the shells are formed. This development, in turn, makes tracking the infection much more complicated and possibly extremely damaging to the producer. To what degree has the Agriculture Research Service conducted research in the area of Salmonella Enteritidis?

Answer: The Agricultural Research Service has made a major research commitment to solving the problem of contamination of eggs with Salmonella enteritidis at the Southeastern Poultry Research Laboratory in Athens, Georgia. The research was initiated in 1988 with a redirection of approximately $100,000. It has increased each year until now the resources directed to this problem total $895,000. ARS also supports research on Salmonella enteritidis at the University of Pennsylvania by way of a cooperative agreement.

STEM RUST DISEASE OF BARLEY

Question: The barley crop in the U.S. is threatened by a new race of stem rust which is causing considerable economic losses to growers and is limiting the supply of high quality malting barley for U.S. brewers. The ARS, with financial support from the industry and growers, is to be commended for its initial, but limited efforts to meet this threat posed by this disease. What in addition, can ARS do to help develop barley varieties with durable resistance to this disease?

Answer: We plan to continue to work closely with State and industry cooperators to help reduce the threat of this new disease. ARS scientists can provide seeds of barley lines for evaluation of resistance to the new race of the stem rust pathogen. We can also provide facilities for evaluation of barley and oat germplasm for resistance to the new race of the stem rust pathogen in the field. Some preliminary evaluations were made during the 1990-1991 winter at our Mayaguez, Puerto Rico, winter nursery facility.

QUESTIONS SUBMITTED BY SENATOR NICKLES

PEANUTS

Question: In late 1990, the ARS proposed terminating the research activities at the Peanut Research Unit at Stillwater and transferring the unit's budget to ARS facilities in Georgia. Fortunately, Senator Nickles intervention convinced ARS to continue research at Stillwater for at least one more year.

On February 7, 1991, Senator Nickles again contacted Dr. R.D. Plowman, ARS Administrator to inquire about reports that some of the peanut germplasm developed at Stillwater was being transferred to researchers in other states. Senator Nickles expressed his desire to ensure that research at Stillwater continue through fiscal year 1991 and beyond.

What are the current plans for the operation of the Peanut Research Unit at Stillwater in fiscal year 1991 and fiscal year 1992?

Answer: In response to expressed concerns on terminating peanut research at Stillwater, we are postponing until September 1991 any decision about redirecting research on peanut disease control and production practices. During this period, we will be meeting with industry representatives to explore the most efficient means of utilizing our limited resources to respond to increasing grower needs. ARS will need the assistance and cooperation of the peanut industry as we work toward realignment of research with availability of resources. Our program plans for fiscal year 1992 will depend upon the outcome of these deliberations.

Question: Has the ARS transferred any peanut germplasm from Stillwater to other ARS facilities? If so, why?

Answer: We have transferred the collection of wild peanut germplasm from Stillwater to the ARS Regional Plant Introduction Station at Griffin, Georgia. The germplasm had been held temporarily at Stillwater pending the construction of special greenhouses and seed storage facilities at Griffin to ensure the preservation of this valuable collection. Construction of these facilities at Griffin was completed in 1990. All of the peanut germplasm maintained at Griffin, however, is freely available to all public and private peanut scientists, including those at Stillwater, for research purposes.

LANE, OKLAHOMA

Question: Please provide a summary of the Service's research activities at Lane, including the resulting benefits for agriculture interests in Oklahoma and neighboring regions.

Answer: We have 8 research projects at the ARS South Central Agricultural Research Center, Lane, Oklahoma, to help solve the production and marketing problems of small farm industries of the South Central States. Emphasis includes research on fruit and vegetable cultural management systems; development of improved postharvest storage of fruits and vegetables for maintenance of market quality; control of postharvest disease problems of fruits and vegetables; evaluation and production of vegetable varieties for the South Central States; control of corn earworm and other vegetable insect pests; production practices for kenaf; and catfish production, processing, and marketing practices. Research is conducted on a wide variety of fruit and vegetable crops considered to have potential for commercial production. These include peaches, grapes, blueberries, blackberries, strawberries, asparagus, Irish potatoes, sweet potatoes, beans, peppers, tomatoes, broccoli, onions, cabbage, okra, watermelon, cantaloupe, squash, and turnips. All the research is cooperative with Oklahoma State University (OSU) and 6 OSU scientists are located on site.

Question: The President's fiscal year 1992 budget proposes to terminate a buildings and facilities construction project at Lane. The Congress in fiscal year 1991 appropriated $1.45 million for Phase III of this project. What is the funding balance needed to complete this project?

Answer: The President's Budget does not propose the termination of the Phase III construction at Lane, Oklahoma. The funding balance needed to complete Phase III construction is estimated to be $2 million.

Question: If fully constructed, what additional annual operating expenses will be needed for this facility? Please summarize the intended use of the new buildings.

Answer: It is estimated that an additional $350,000 would be required for annual operating expenses for the existing staff if the Center is fully constructed. The new buildings to be completed under Phase III construction will be used as follows: office/laboratory building - offices and laboratories for 5 scientists; postharvest building - specialized equipment and facilities for agricultural engineering research, harvesting, and handling facilities for preparation of fruits and vegetables for marketing studies, conveyors used for sorting and packaging of fruits and vegetables, 2 laboratories for postharvest physiology studies, and 8 walk-in refrigerators and 2 walk-in freezers for storage of horticultural crops; greenhouse space - 12 additional small greenhouse sections for use in production research of horticultural crops; and chemical storage building - for safe storage of toxic or experimental chemicals outside of the main office/laboratory building.

RUSSIAN WHEAT APHID

Question: Please summarize the research activities conducted on the Russian wheat aphid at Stillwater.

Answer: ARS scientists at 8 locations conduct research on Russian wheat aphid (RWA). The major activity is centered at the ARS Stillwater, Oklahoma, laboratory where $1,173,100 is devoted to the RWA problem. There are 7 major research activities at Stillwater and these are associated with the following objectives: (1) to develop resistant germplasm of wheat, barley and grasses from traditional breeding programs and genetic engineering techniques; (2) to identify resistance sources and to develop and release RWA- resistant small grain germplasm; (3) to identify, characterize and introgress genes conferring RWA resistance for small grain germplasm enhancement; (4) to identify and characterize RWA resistant germplasm lines that may serve as breeding resources for both cool and warm season cereals and for turf, range, and conservation grass species; (5) to conduct biotypic and genetic studies on the RWA and its parasitoids; (6) to develop quantitative technology for incorporation into management decision support systems; and (7) to collect, study, and release exotic natural enemies of the RWA into infested grain growing regions of the United States as a control strategy.

FORAGE

Question: Please provide a summary of the Service's research activities at Woodward, including the resulting benefits for agricultural interests in Oklahoma and neighboring regions.

Answer: Scientists at Woodward investigate the structure and function of rangeland and associated ecosystems, develop improved rangeland management technology, and select, enhance, and develop germplasm of native and introduced forage species for more proficient forage-livestock production systems.

Woodward scientists have contributed significantly to the economic prosperity of Oklahoma and the Southern Plains by developing grass seed harvesting and planting equipment and improved grass varieties used on more than 20 million acres. Varieties of OLD WORLD BLUESTEM, released from Woodward in the last decade, are planted on more than 2 million acres and have generated as much as $100 million annually to the economy of the Southern Plains. This represents the increase in, 1) Beef Production, 2) the production and sale of seed, 3) profits to the seed processing industry, and 4) government payments for CRP land. Not included, but probably of equal value, were benefits derived from millions of tons of soil saved from wind and water erosion. The SPRRS has developed grazing management strategies, controls for major undesirable weeds and shrubs, and livestock management and supplementation programs that have been applied to millions of acres throughout Oklahoma and the Southern Plains.

Question: This ARS station has made great progress with a highly productive and palatable perennial forage, gamagrass. I have reviewed a proposal which includes $450,000 for additional scientists and technical support, and $750,000 for research

facilities to enhance the progress of gamagrass research. What is the funding capability for this project?

Answer: ARS is optimistic about the progress being made with research on it's large collection of Eastern gamagrass. Two releases of this grass have been made and four more will soon follow. The germplasm being developed has the potential to significantly benefit agriculture, including dairy and beef cattle industry, across the southern and eastern United States. Current resources do not permit the expansion of the research program at Woodward on Eastern gamagrass.

QUESTIONS SUBMITTED BY SENATOR BOND

SAFE FOOD SUPPLY

Question: The public is insisting on reassurance that our food supply is safe. What program efforts and special initiatives do you have underway to address these concerns?

Answer: The ARS has many different program efforts and special initiatives to help assure the public that our food supply is safe. Presently the ARS food safety research program is focused toward preventing microbiological and chemical contaminants in food. To prevent mycotoxin contamination, our research seeks to provide cost effective, environmentally acceptable and easily applied control methods, particularly for aflatoxin. To prevent salmonella contamination of meat and eggs, ARS research looks at control opportunities both in live animals and in slaughtering and processing. To prevent residues from drugs and pesticides, we are developing less expensive, more sensitive analytical methodology for detection of residues as well as integrated management technologies and biologically based systems for managing insect, disease, and weed pests. Research proposed for 1992 will augment these existing broad program areas. To help assure meat safety, ARS will identify and test both competitive microorganisms and processing parameters to decrease the use of chemicals, and develop bioassay based multiresidue identification methods for monitoring the use of drugs and other chemicals. The proposed ARS research program will also control natural toxins from fungi and plants by elucidating enzymatic pathways and identifying genes contributing to toxin biosynthesis, developing competitive bacterial endophytes, identifying natural sources of infection, and developing integrated production and handling strategies. To help establish these priorities, we frequently interact regarding concerns, needs, program goals, and priorities with a great diversity of professional organizations, advisory groups, and national commodity organizations through their annual meetings and through scientific and commercial forums. We produce technical bulletins that are directly distributed to interested groups and made available to the public through the U.S. Department of Commerce's National Technical Information Service. In addition, the ARS works with the Extension Service to help them develop information on food safety for their consumer programs.

SOYBEAN CYST NEMATODE

Question: How is research on the soybean cyst nematode going and has there been any breakthrough on any new resistant soybean varieties? Is there currently any other research ongoing outside of the University of Missouri Delta Center?

Answer: ARS research on the soybean cyst nematode (SCN) is progressing. Factors, such as soil temperature, moisture, and texture, have been identified that affect damage caused by the SCN. Conservation tillage practices have been developed to prevent epidemics caused by the SCN. Breakthroughs in new resistant soybean varieties that reduce the amount of disease and nematode populations include development of the cultivars, Bedford, Pickett, and Peking. Additional resistance to SCN has been identified by screening the USDA soybean collection. Plant Introductions 399061, 424595, and 438342 have been identified as being highly resistant to Race 5 of the SCN. ARS conducts research on the soybean cyst nematode at Beltsville, Maryland; Urbana, Illinois; Jackson, Tennessee; Gainesville, Florida; and Stoneville, Mississippi. This research focuses on methods of biocontrol, population dynamics and management, and host plant genetic resistance.

COORDINATED RESEARCH

Question: You have several scientists located at Land-grant Universities. How well are the ARS scientists linked in with the University scientists? Are their research programs integrated? Are your staffing decisions coordinated with University staffing decisions?

Answer: Linkage is viewed by both ARS and the University as an essential component and benefit of a decision to locate an ARS scientist at a Land-grant Institution. The appointment must complement the scientific and technological needs of the University. It must also provide the ARS scientist with an enriched environment, create a disciplinary team, or establish the critical mass needed to increase the opportunity for effective resolution of agricultural issues and problems of national priority.

Integration of research programs is a direct consequence of linkage. The degree of linkage will vary from full integration, such as that found in the Mid-west Water Quality Initiative, to programs that are highly complementary, such as ARS quality evaluation of University breeding materials.

Decisions on recruitment and candidate selection are coordinated as appropriate with the University. In many instances, the selection committee has both ARS and University representation.

WETLANDS

Question: Have you studied the negative effects of wetlands, such as insect and disease growth? What were your results?

Answer: Aquatic environments, including wetlands, are the required breeding habitats of any number of mosquito species as well as other biting Diptera such as horse flies, deer flies, black flies, biting midges, etc. These insects not only cause annoyance, they also transmit diseases to humans and animals. In addition to viral encephalidities, mosquitoes transmit such viral diseases as dengue and yellow fever, and protozoan diseases as malaria. Horse flies and other biting Diptera have been incriminated in the mechanical and biological transmission of pathogenic agents to humans and animals. The Agricultural Research Service conducts research on the control of mosquitoes and other biting Diptera that breed in wetland environments. Emphasis is given to biologically based methods of control and chemical strategies that have minimum impact on the aquatic ecosystem. Results of this research have provided control technologies not only to mosquito abatement districts but also to other government organizations responsible for managing problems associated with noxious insects that breed in wetlands.

UNIVERSITY OF MISSOURI

Question: Your recent program increase for research at the University of Missouri was in groundwater quality for $225,000. With the high priority in food safety and Biochemistry, why were they not included in the increase of funds?

Answer: The University of Missouri location was not included in the recent increase for food safety and biochemistry because the ARS does not have food safety programs at Columbia, Missouri. To best utilize agency resources to answer pressing food safety concerns, the ARS placed the food safety increases at agency locations already addressing national concerns in food safety.

FORAGE RESEARCH

Question: Why was the forage research eliminated at the University of Missouri?

Answer: The forage research project was eliminated at the University of Missouri because it was underfunded and ranked low in scientific priority and relevance in the ARS national research program.

SOIL, WATER AND AIR RESEARCH

Question: What research plan does ARS currently have in place to protect our soil, water and air, and yet maintain the production levels of the farmer?

Answer: The ARS research plan calls for maintaining and enhancing the quality and productivity of the Nation's soil, water, and air resources through development of new and improved resource management practices and systems and to assess the long-term effects of agricultural activities and projected environmental changes on the quality and productivity of agriculture. ARS emphasis will be on expanding research on global environmental change and water quality. The global change research will concentrate on the effects of potential increases in

temperature and carbon dioxide and potential changes in hydrology and weather severity on crop yields, rangeland resources, and future water resources. Also, global change research will design response strategies for reducing negative impacts from atmospheric and environmental variables to maintain agricultural productivity and the health of the human life-support system. The water quality protection research will emphasize assessing whether, how much, and how badly agriculture might harm water quality and developing new agricultural management practices and systems that are cost effective and will protect and enhance water quality.

The ARS request for global change funding in FY 1992 will support research to determine the sensitivity of agricultural ecosystems and water supplies to climate change; and to determine the agricultural contribution to global carbon emission and storage. The water quality request for FY 1992 will increase research to determine the fate and transport of nutrients and pesticides in the soil and minimize their invasion into groundwater, improve surface water quality through vegetative management in areas adjacent to streams and ponds, develop management systems that use cover crops and rotations to eliminate nitrate contamination of water supplies, and assess the biological risks of both natural water contaminants and pesticide residues.

In the entire soil, water, and air research area, we will also increase emphasis on targeting chemicals to specific crops and pests and on developing food and fiber production systems that use inputs more efficiently and are more protective of the environment. Methods of planting, weed control, harvesting, and crop residue management will be developed that will facilitate conservation tillage, including no-till systems. Other areas of increased effort include cost-effective utilization of agricultural, municipal, and industrial wastes and developing integrated crop and livestock management practices and systems that reduce wind and water erosion, enhance efficient use of farm inputs, and maintain or increase the profitability and long-term productivity of agriculture.

Question: Water quality is a key national concern. What are you doing in coordinated research, extension, and other agency efforts to address this area?

Answer: Coordination of ARS and collaborative water quality research is provided through the USDA Working Group on Water Quality. Priorities for ARS research on water quality are also integral components of the Committee on Earth and Environmental Sciences' Federal Ground Water Science and Technology Program.

Pursuant to the 1990 Presidential Initiative on Enhancing Water Quality, ARS has entered into a partnership with the Cooperative State Research Service, State Agricultural Experiment Stations, Soil Conservation Service, Extension Service, other appropriate State and local agencies, U.S. Geological Survey, and Environmental Protection Agency to assess the extent and severity of the ground water quality problem and to develop cost-effective solutions to the problem. The initial study is focused in the Midwest on a series of corn and soybean production sites located in Iowa, Minnesota, Missouri, Nebraska, and Ohio. These sites

(farmers' fields where ARS, State universities, industry researchers, and extension personnel are working cooperatively) are known as Management System Evaluation Areas.

QUESTION SUBMITTED BY SENATOR HATFIELD

EASTERN FILBERT BLIGHT

Question: As you know, Eastern Filbert Blight continues its slow but relentless advance into the major hazelnut production areas of the Northwest. Much has been accomplished since the USDA began its research activities in 1987, but we must accomplish a great deal more before the situation will no longer pose a threat to this $45 million industry in Oregon alone. Can you briefly tell the Committee about what developments have been made in this research area and what progress you hope to make in the next year?

Answer: We have made considerable progress in filbert blight research. This includes successful culture of the pathogen, determination that peak infection occurs at and shortly after the time of flowering which is often associated with rain, and successful inoculation of seedlings with ascospores resulting in infection.

Progress expected to be made in the next year includes the evaluation and identification of existing and new resistant germplasm based on seedling inoculation, evaluation of chemicals for controling the pathogen and disease development, development of serological probes for pathogen detection, comparative determination of disease progress in susceptible and resistant germplasm, and increased knowledge of the factors affecting infection.

COOPERATIVE STATE RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

NATIONAL RESEARCH INITIATIVE

Question: In light of your perennial proposals to eliminate special research grants, it would be helpful to us if we could tell groups seeking special research funding that they should apply for a competitive research grant, especially in view of the increased funding for competitive research grants. However, it has come to my attention that the regulations for the competitive grant program stipulate that no group that receives a special research grant may apply for a competitive research grant. Is this true? If so, what is the justification?

Answer: It is the policy of all U.S. Department of Agriculture competitively awarded grants programs to avoid double funding research projects, that is, fund the same research twice. This is also the policy of other grant programs in other Federal government research agencies such as the National Science Foundation or the National Institutes of Health. However, if a proposal is only partially funded and the objectives supported are clearly identified, those research objectives not funded under one program may be submitted to another grant program as long as a new research project is submitted clearly documenting separation of the objectives of the funded grant and the new grant proposal.

Question: If it is not true, can a group that receives a special research grant apply for a competitive research grant for the same or similar purpose as the special research grant?

Answer: A person may receive a grant from the Special Grants Program and the Competitive Grants Program provided there are two proposals with clearly and distinctly different objectives even though they are related to a similar research area. The same research proposal will not be funded by both grant programs, to avoid double funding, nor be funded by the National Science Foundation or the National Institutes of Health if funded by either of the USDA programs.

Question: What amount of the competitive research grants in 1991 is going toward forestry research? What is proposed for 1992?

Answer: In 1990, $3.7 million was awarded for wood utilization and forest biology. The NRI support for forestry-related research in 1991 is anticipated to be at least as large as the support provided through the Competitive Research Grants Program in 1990. Actual support for 1991 cannot be identified at this time since proposals submitted to the National Research Initiative are yet to be evaluated by panels of peer scientists and panel advice concerning scientific merit of each proposal is the basis upon which funding decisions are made. Because the National Research Initiative has new emphasis on forestry research in 1991, it appears likely that the support will be greater than in previous years. The new emphasis includes the development of two new

program areas which have a major forestry component: the Forest, Rangeland, Crop Ecosystems Program and the Wetland, Riparian, Forest Ecosystems subarea in the Water Quality Program. Further, studies on woody species have been specifically encouraged in the previously existing programs.

As funding for the National Research Initiative grows, it is anticipated that funding for forestry research will increase. The importance of forestry research will continue to be emphasized in 1992. In addition, an aim of the National Research Initiative for 1991 and for future years is that of increasing the size and duration of awards, including those made for research on woody species.

Question: How have you complied with the Committee report language that recommends that, in addition to designating 10 percent of competitive research grants for institutional strengthening grants, 10 percent of the competitive research grants be allocated to States represented by EPSCoR--the experimental program to stimulate competitive research?

Answer: We are developing procedures to follow the philosophy of the experimental program to stimulate competitive research. As with other granting agencies the USDA is developing its own list of EPSCoR states which have been less successful in obtaining competitive grants in agriculture, food and natural resources. The specific states vary slightly from that of NSF, DOE, etc. It is anticipated that the universities in these states that have been less successful will receive at least 10 percent of the strengthening grants as directed.

Question: How will you comply with that language in 1992?

Answer: We are currently preparing language to be added to the Administrative Provisions that govern the Competitive Grants Program to set aside funds for grants directed to this program. It is anticipated that these will include post doctoral fellowships, new investigator awards, faculty research sabbatical leaves, equipment grants, seed grants and strengthening project grants.

NATIONAL RESEARCH INITIATIVE

Question: Please provide a summary of the geographical distribution of the competitive research grants for the last two years showing the State, entity, and funding level.

Answer: A table follows which shows the institutions that received Competitive Grants in Fiscal Years 1989 and 1990.

Competitive Research Grants
Fiscal Year 1989 and 1990 Recipients
(In Dollars)

State/Recipient	Fiscal Year 1989 Actual	Fiscal Year 1990 Actual
ALABAMA		
Agricultural Experiment Station, Auburn University	$0	$379,000
Tuskegee University	100,000	0
University of Alabama, Birmingham	0	155,000
ALASKA		
Agricultural and Forestry Experiment Station, University of Alaska	0	100.000
ARIZONA		
Agricultural Experiment Station, University of Arizona	1,354,000	530,000
ARKANSAS		
Agricultural Experiment Station, Univ. of Arkansas	200,000	0
CALIFORNIA		
Agricultural Experiment Station, Univ. of California, Berkeley	1,117,688	1,234,700
J. N. Bailey-Serres	33,000	0
Lois I. Rodrigo	0	66,000
Salk Institute for Biological Studies	90,000	0
San Diego State University	0	70,000
Stanford University	560,000	0
University of California, Davis	1,887,712	2,601,567
University of California, Irvine	240,000	0
University of California, Los Angeles	150,000	189,375
University of California, San Diego	270,000	265,000
University of California, Santa Barbara	180,000	241,000
University of California, Riverside	595,000	675,000
USDA-Agricultural Research Service	280,000	0
COLORADO		
Agricultural Experiment Station, Colorado State University	234,000	495,188
University of Colorado	0	100,000
USDA-Agricultural Research Service	150,000	0
CONNECTICUT		
Agricultural Experiment Station, New Haven	0	113,986
Agricultural Experiment Station, Univ. of Connecticut, Storrs	90,000	143,750
Yale University	0	190,000
DELAWARE		
Agricultural Experiment Station, University of Delaware	100,000	0
E. I. du Pont de Nemours Co., Inc.	100,000	0
DISTRICT OF COLUMBIA		
Carnegie Institution of Washington	100,000	0
Georgetown University	0	48,684
National Academy of Sciences	0	6,000
FLORIDA		
Agricultural Experiment Station, University of Florida	1,524,000	1,152,493
Florida State University	0	100,000
Tampa Bay Research Institute	220,000	0
GEORGIA		
Agricultural Experiment Station, University of Georgia	470,000	488,000
USDA-Agricultural Research Service	530,000	367,000

State/Recipient	Fiscal Year 1989 Actual	Fiscal Year 1990 Actual
HAWAII		
Agricultural Experiment Station, University of Hawaii	$0	$185,300
IDAHO		
Agricultural Experiment Station, University of Idaho	0	117,000
ILLINOIS		
Agricultural Experiment Station, University of Illinois ...	1,072,000	755,000
Illinois State University	60,000	0
Northern Illinois University	0	100,000
Northwestern University	60,000	50,000
Southern Illinois University	305,000	0
University of Chicago	197,000	0
University of Illinois, Champaign	280,000	579,000
USDA-Agricultural Research Service	461,000	711,000
INDIANA		
Agricultural Experiment Station, Purdue University	1,165,257	1,298,073
IOWA		
Agriculture & Home Economics Experiment Sta., Iowa State University	880,000	847,428
University of Iowa	100,000	70,000
KANSAS		
Agricultural Experiment Station, Kansas State University ..	440,000	716,185
KENTUCKY		
Agricultural Experiment Station, University of Kentucky ...	645,000	849,000
Randy Hunt	66,000	0
LOUISIANA		
Agricultural Experiment Station, Louisiana State University	100,000	172,000
Louisiana State University Medical Center	272,334	0
USDA Forest Service	100,000	82,300
MAINE		
Agricultural Experiment Station, University of Maine	120,000	198,100
MARYLAND		
Agricultural Experiment Station, University of Maryland ...	660,000	235,000
Federation of American Societies for Experimental Biology .	0	6,000
USDA-Agricultural Research Service	787,000	473,376
MASSACHUSETTS		
Agricultural Experiment Station, Univ. of Massachusetts ...	413,898	510,000
Amherst College	100,000	0
Massachusetts General Hospital	0	100,000
Tufts University	0	208,000
University of Massachusetts Medical School	0	75,000
Worcester Foundation for Experimental Biology	0	200,000
MICHIGAN		
Agricultural Experiment Station, Michigan State University	1,047,410	2,126,350
Michigan Technological University	0	82,400
University of Michigan	352,000	539,000
MINNESOTA		
Agricultural Experiment Station, University of Minnesota ..	836,442	723,000
Carleton College	0	32,000
MISSISSIPPI		
Agricultural and Forestry Experiment Station, Mississippi State University	0	120,000

State/Recipient	Fiscal Year 1989 Actual	Fiscal Year 1990 Actual
MISSOURI		
Agricultural Experiment Station, University of Missouri ...	$750,012	$672,000
Jeffrey A. Hall	60,000	0
Northeast Missouri State University	65,000	0
Washington University	150,000	399,000
MONTANA		
Agricultural Experiment Station, Montana State University .	158,000	250,000
NEBRASKA		
Agricultural Experiment Station, University of Nebraska ...	648,545	890,000
NEVADA		
Agricultural Experiment Station, University of Nevada	323,000	270,000
NEW HAMPSHIRE		
Agricultural Experiment Station, Univ. of New Hampshire ...	0	202,000
Dartmouth College	100,000	230,318
NEW JERSEY		
Agricultural Experiment Station, Rutgers University	343,000	1,030,000
University of Medicine and Dentistry of New Jersey	215,000	94,188
NEW YORK		
Agricultural Experiment Station, Cornell University	2,550,938	2,262,136
Boyce Thompson Institute	145,000	501,295
City Univ. of New York Res. Fdn. & College of Staten Island	65,000	0
CUNY Research Foundation on Behalf of Baruch College	180,000	0
Rensselaer Polytechnic Institute	125,000	0
Research Foundation of State University of New York	90,000	335,400
State University of New York at Buffalo	100,000	0
Syracuse University	0	130,000
University of Rochester	0	100,000
U.S. Department of Energy	350,000	0
NORTH CAROLINA		
Agricultural Experiment Station, North Carolina State University	294,000	729,700
Duke University	0	235,000
University of North Carolina at Chapel Hill	210,000	100,000
William R. Marcotte, Jr.	0	68,500
OHIO		
Agricultural Experiment Station, Ohio State University	811,408	567,000
Mercedes A. Ebbert	0	66,000
Ohio University	0	102,000
University of Cincinnati College of Medicine	208,000	0
OKLAHOMA		
Agricultural Experiment Station, Oklahoma State University	320,000	210,000
OREGON		
Agricultural Experiment Station, Oregon State University ..	845,157	1,198,656
University of Oregon	0	150,000
PENNSYLVANIA		
Agricultural Experiment Station, Pennsylvania State Univ...	643,000	510,664
Carnegie Mellon University	0	125,000
Drexel University	100,000	0
Temple University	230,000	100,000
Thomas Jefferson University	0	43,882
University of Pennsylvania	220,000	80,000
USDA-Agricultural Research Service	192,759	230,000
USDA-Forest Service	152,102	0

State/Recipient	Fiscal Year 1989 Actual	Fiscal Year 1990 Actual
RHODE ISLAND		
Gordon Research Conference	$5,000	$25,650
SOUTH CAROLINA		
Agricultural Experiment Station, Clemson University	50,000	50,000
Medical University of South Carolina	0	170,000
SOUTH DAKOTA		
Agricultural Experiment Station, South Dakota State Univ...	100,000	85,000
TENNESSEE		
Agricultural Experiment Station, University of Tennessee ..	160,000	451,000
U.S. Department of Energy, Oak Ridge	143,000	0
TEXAS		
Agricultural Experiment Station, Texas A&M University	367,500	1,437,000
Texas Tech University	205,205	50,000
University of Texas	50,000	105,000
University of Texas Health Science Center	75,000	80,000
University of Texas Medical Branch	135,422	0
USDA/ARS Southern Plains Area	0	50,000
William Marsh Rice University	147,272	0
UTAH		
Agricultural Experiment Station, Utah State University	381,050	220,000
Brigham Young University	128,950	100,000
University of Utah	120,000	108,612
VERMONT		
Agricultural Experiment Station, University of Vermont	50,000	128,000
VIRGINIA		
Agricultural Experiment Station, Virginia Polytechnic Institute and State University	60,000	228,800
WASHINGTON		
Agricultural Experiment Station, Washington State Univ.....	835,008	535,000
University of Washington	352,500	444,600
WEST VIRGINIA		
Agricultural and Forestry Experiment Station, West Virginia University	180,000	111,000
WISCONSIN		
Agricultural Experiment Station, University of Wisconsin ..	1,944,199	1,434,626
Marquette University	0	200,000
Medical College of Wisconsin	345,000	70,000
USDA-Forest Service	0	470,626
WYOMING		
Agricultural Experiment Station, University of Wyoming	80,000	0
Subtotal	37,650,768	40,309,908
Federal administration (4%)	1,588,640	1,700,840
Small Business Act	476,592	510,252
Total	39,716,000	42,521,000

INDIRECT COSTS

Question: The 1991 appropriations act included a requirement that for competitive awarded grants, indirect costs shall not exceed 14 percent of the total direct costs under each award. What has been the result of this provision?

Answer: There has been much concern expressed by university administrators. Since the audited indirect costs are a real expense there have been suggestions from some universities that the difference in the audited indirect costs and the 14 percent cap may have to be born by the academic, e.g. agriculture, colleges receiving the grants.

Question: Has this requirement resulted in the reduction of applications for such grants?

Answer: It is really too early in the granting process to get a true assessment. However, in the few programs in which deadlines for receipt of proposals have passed there is not a significant reduction noted from the previous year. It must be cautioned that the subject areas of most of these programs have been broadened possibly masking a reduction.

Question: Has it changed the makeup, distribution or quality of grant applications?

Answer: It is too early to assess the makeup, distribution or quality of the applications until the peer panels meet which will begin in March and extend until July. This may even be difficult then because the National Research Initiative resulted in considerable broadening of many program areas. In addition, the National Research Initiative stipulated a different distribution of grant types such as individual investigator, multidisciplinary, mission-linked and strengthening grants making ultimate comparison difficult with Fiscal Year 1990.

SUSTAINABLE AGRICULTURE

Question: You cite successes in the sustainable agriculture program in terms of developing methods to reduce the use of potentially harmful chemical pesticides and fertilizers. Are these successes being made known to producers who desire them? By what means?

Answer: Providing farmer ready results is an integral part of each project funded under this program. One of the six project selection criteria specifies that: "Highest priority will be given to projects where farmers actively participate in the design and implementation. Proposals should state explicitly the roles farmers will perform, such as designing the project, conducting experiments, providing information on costs and returns, and conducting field days of demonstrations." Having this program jointly administered with the Extension Service also insures timely transfer of promising results.

To date -- 1988-1990 -- 1,860 farmers have participated in some meaningful way in the 154 funded projects. Hundreds of farmers have helped generate ideas for these projects and have provided land for studies and demonstration plots. They also helped manage the program and over 500 evaluated the outcomes. Most importantly, farmers are actively involved in the leadership of this program, helping to decide which projects to fund. As project results become available they are being disseminated to farmers through special reports, publications, and video presentations; through an information delivery system now being developed under the program; and through existing channels, including the State Cooperative Extension System and Soil Conservation Service.

Question: Can you quantify what portion of Hatch Act funds are being used for sustainable agriculture purposes?

Answer: Research in sustainable agriculture falls into two general categories--component and total production systems or whole farm. The component activities are concerned with cause and effect relationships underlying specific farming problems and include such topics as biological control, IPM, plant breeding, prediction and control of soil erosion, and nutrient management. In FY 1991 approximately $57.3 million or 35 percent of the Hatch Act program is involved in research related to sustainable agriculture and it primarily falls in this component category. The whole-farm activities deal with the total picture, including the farmers goals, resources, and the interactions between farming practices. The sustainable research and education program focuses on the latter. Each makes an essential contribution.

BUILDINGS AND FACILITIES

Question: The National Association of State Universities and Land-Grant Colleges has developed a position paper with regard to non-federal facilities construction grants. That paper was based on the 1989 report of a Special Joint Committee on Agricultural Research Facilities in conjunction with USDA. The paper refers to "eligible cooperating institutions." Your proposal identifies eligible grantees as State Agricultural Experiment Stations, Colleges of Veterinary Medicine, Schools of Forestry, and the 1890 Institutions and Tuskegee University. What is the definition for "eligible cooperating institutions" and does it differ with your proposal?

Answer: It is proposed that the Administration's competitive research facilities initiative for fiscal year 1992 be supported under the authority of the Research Facilities Act of 1963. State Agricultural Experiment Stations, Colleges of Veterinary Medicine, Schools of Forestry, and 1890 Land-Grant Institutions and Tuskegee University will be eligible to compete for these funds.

Question: Does your proposal include a provision for smaller or emerging cooperating institutions? If so, what is the definition for these institutions and how would the provision work?

Answer: The Administration's budget request for fiscal year 1992 includes $25 million for a competitive research facilities program in CSRS. To the extent that these construction funds are awarded competitively and not earmarked, this program is recommended for continued funding in the outyears at a level equal to 20 percent of the National Research Initiative's funding level. While CSRS and the Department continue to support smaller or emerging cooperating institutions, a decision has not been made on setting aside funds for these institutions in fiscal year 1992 or in future years.

Question: For each of the facilities funded in the 1991 act, or for which a report was requested, list the amount of funding made available to date, the total estimated cost of the facility, and the current status in terms of whether construction is ready to begin or has begun and whether additional funds could be used in 1992.

Answer: The table follows:

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Center for Food Animal Production, Research and Service TUSKEGEE UNIVERSITY	6,671	6,671	Ready for construction	All funds in hand, no additional funds needed
Environmental Stress Laboratory UNIVERSITY OF ARIZONA	3,626	0	Preplanning work nearly completed	Design funds
Center for Alternative Pest Control Research UNIVERSITY OF ARKANSAS	4,666	1,231	Design underway	Construction funds
Poultry Center for Excellence UNIVERSITY OF ARKANSAS	20,900	3,750	Ready for design work	Construction funds
Poultry Laboratory and Isolation Facility UNIVERSITY OF ARKANSAS	1,530	1,159	Construction underway	Additional construction funds
Alternative Pest Control Containment and Quarantine Facility UNIVERSITY OF CALIFORNIA	28,000	0	Program still undergoing review	Unknown
Grape Importation and Clean Stock Facility UNIVERSITY OF CALIFORNIA (Davis)	4,160	1,025	Construction underway	Additional construction funds

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Agricultural Biotechnology Institute UNIVERSITY OF FLORIDA (Alachua)	12,000	4,870	Design phase underway	Construction funds
Biocontainment Facility UNIVERSITY OF GEORGIA	15,000	3,494	Design work completed	Construction funds
Center for Advanced Water Technology SAVANNAH STATE COL. (Savannah, GA)	2,715	0	Developing program	Pre-planning funds
National Laboratory for Environmentally Sound Production Agriculture UNIVERSITY OF GEORGIA (Tifton)	6,000	300	Ready to begin design work	Design/construction funds
Vidalia Onion Storage Research Facility UNIVERSITY OF GEORGIA	967	0	Ready for design work	Design funds
Center for Tropical and Subtropical Agriculture UNIVERSITY OF HAWAII (Manoa)	23,839	6,846	Construction underway	Additional construction funds
Biotechnology Facility UNIVERSITY OF IDAHO	11,800	590	Ready to hire architect	Design/construction funds
Biotechnology Center NORTHWESTERN UNIV. (Evanston, IL)	24,400	0	Construction underway	Additional construction funds
National Soybean Laboratory UNIVERSITY OF ILLINOIS	10,800	3,173	Construction underway	Additional construction funds

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Molecular and Cellular Biotechnology Facility INDIANA UNIVERSITY (Bloomington)	30,000	1,500	Pre-planning underway	Design funds
National Center for Food and Industrial Agriculture Products IOWA STATE UNIVERSITY	24,083	14,728	Construction underway	Additional construction funds
Nutrition Research Center IOWA STATE UNIVERSITY	11,600	4,316	Construction underway	Additional construction funds
Plant Science Research Center KANSAS STATE UNIVERSITY	26,850	8,093	Construction underway	Additional construction funds
Building Consolidation (Aroostook Farm) UNIVERSITY OF MAINE (Presque Isle)	1,500	150	Design nearly complete	Construction funds
Food Safety Laboratory UNIVERSITY OF MAINE	185	93	Not a facilities project	
Masardis Research Farm (Porter Farm) MAINE DEPT. OF AGRIC. (Augusta)	1,500	271	Construction underway	Additional construction funds
Institute for Natural Resources and Environmental Science UNIVERSITY OF MARYLAND	20,000	0	Ready to begin design work	Design funds

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Center for Hunger, Poverty, Nutrition and policy TUFTS UNIVERSITY (Medford, MA)	12,650	0	Design work recently started	Design funds
Food Toxicology Center MICHIGAN STATE UNIVERSITY	25,000	9,288	Construction underway	Additional construction funds
Bennett Living and Learning Center LINCOLN UNIVERSITY (Jefferson City, MO)	2,900	0	Preliminary design work underway	Design/construction funds
Bioscience Research Laboratory MONTANA STATE UNIVERSITY	16,000	1,547	Design underway	Construction funds
National Center for Advanced Technology UNIVERSITY OF NEBRASKA	29,800	7,712	Design underway	Construction funds
Center for Molecular Biology RUTGERS UNIVERSITY (NJ)	74,200	2,933	Design underway	Construction funds
Library/Herbarium NEW YORK BOT. GARDEN (Bronx)	26,000	0	Design underway	Design/construction funds
Biotechnology Facility NORTH CAROLINA BIOTECHNOLOGY CENTER (Research Triangle Park)	6,312	750	Construction underway	Additional construction funds

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Animal Care Facility NORTH DAKOTA STATE UNIVERSITY	5,000	0	Ready for design work	Design funds
Industrial Agriculture & Communications Center NORTH DAKOTA STATE UNIVERSITY	10,700	5,350	Construction underway	All funds in hand; no additional funds needed
Seed Research and Regulatory Fac. NORTH DAKOTA STATE UNIVERSITY	425	0	Design work underway	Design/construction funds
Institute for Agricultural Health Science and Rural Medicine UNIV. OF NORTH DAKOTA (Grand Forks)	17,350	2,892	Planning underway	Unknown until after site visit completed
Seafood Research Laboratory OREGON STATE UNIVERSITY	4,360	0	Preplanning underway	Design/construction funds
Center for Food Marketing ST. JOSEPH'S UNIV. (Phil., PA)	20,000	600	Preplanning underway	Unknown until after site visit completed
Building Consolidation UNIVERSITY OF RHODE ISLAND	38,083	1,904	Ready to hire architect	Construction funds
Northern Plains Biostress Lab. SOUTH DAKOTA STATE UNIVERSITY	12,600	3,749	Construction underway	Additional construction funds
Nursery Crop Research Station TENNESSEE STATE UNIV. (McMinnville)	3,400	495	Construction underway	Additional construction funds

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Institute of Biosciences and Tech. TEXAS A&M UNIVERSITY (Houston)	28,095	8,009 1/	Construction underway	Additional construction funds
Biotechnology Laboratory UTAH STATE UNIVERSITY	7,034	280	Construction underway	Additional construction funds
Tree Physiology and Maple Research Laboratory UNIVERSITY OF VERMONT	1,500	792	Construction complete	No additional funds needed
Agricultural Biotechnology Facility VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY	9,000	1,180	Design work nearly complete	Construction funds
Animal Disease Biotechnology Fac. WASHINGTON STATE UNIVERSITY	51,100	1,210	Design work underway	Construction funds
Rural Health Information & Technology Center MED. COLL. OF WISCONSIN (Milwaukee)	20,600	0	Ready for design work	Site visit report in preparation
Agricultural Biotechnology and Genetics Facility UNIVERSITY OF WISCONSIN	28,360	3,242	Design work underway	Design/construction funds

1/ Includes University of Texas Southwestern funds ($950,000).

FACILITY AND LOCATION	TOTAL EST. COST OF FACILITY ($000)	FEDERAL FUNDING APPROP. TO DATE ($000)	STATUS	POTENTIAL TO USE FY 1992 FUNDING
Research Greenhouse (Madison, WI) AGRICULTURAL RESEARCH SERVICE	500	0	ARS facility	Funds should be appropriated to ARS
Environmental Simulation Facility UNIVERSITY OF WYOMING	18,500	0	Ready for design work	Design/construction funds
TOTAL	762,261	114,193		

ADMINISTRATIVE EXPENSES

Question: You propose changes in the appropriations language in three accounts to cover administrative expenses: competitive research grants, supplemental and alternative crops, and higher education.

What is the purpose of these changes? How were administrative expenses handled for these programs in the past?

Answer: The authorizing legislation for each CSRS program provides that 3 or 4 percent of funds appropriated for a program may be retained by the agency for program administration. CSRS has been doing this in the past and plans to continue to do so in the future. The provision on including administrative expenses is in the current and prior Appropriations Acts for some programs. CSRS included this provision for all programs proposed for 1992 to achieve consistency.

HIGHER EDUCATION

Question: How do you visualize the higher education challenge grants program reaching its full potential?

Answer: The Higher Education Challenge Grants Program is designed to stimulate and enable U.S. colleges and universities to enhance their undergraduate and graduate programs in the food and agricultural sciences in order to strengthen the Nation's scientific and professional workforce. The opportunity to secure a grant in a competitive environment is serving as a catalyst for universities to rethink their programs in innovative ways that will gain Federal support. The program generates dollar-for-dollar non-Federal matching funds and, thus, leverages Federal support to stimulate State and private sector support for activities to promote excellence in education. We believe the Challenge Grants Program offers outstanding potential for stimulating significant improvements in the quality of food, agricultural, and natural resource higher education programs through curricular changes, faculty development activities, innovative instruction delivery systems, enhanced student experiential learning opportunities, upgrading of scientific teaching instrumentation, and recruitment of highly qualified students. With the appropriate level of support, we envision a food and agricultural higher education system producing graduates at the forefront of science and technology who will enable U.S. agriculture to successfully regain its scientific and economic competitive edge in the global arena. At $1 million funding in its initial year and $1.5 million in FY 1991, this program is making a significant impact on a small number of programs at a variety of institutions. The large number of applications for such support at institutions across the Nation demonstrated the potential benefits from the program.

Question: What is the success of the 1890 capacity building grants program in attracting more minority students to major in these seventeen agricultural colleges?

Answer: Several of the twenty-nine projects awarded grants in the first year of the 1890 Institution Teaching and Research Capacity Building Grants Program are primarily targeted toward recruitment of minority students. Other projects involve a strong emphasis on student recruitment. Since FY 1990 was the first year grants were awarded under the Capacity Building Program and the start-up date for projects was September 1, 1990, it is too early to measure the progress in recruiting students. We do anticipate that, within a few years, the cumulative effect of the teaching and research projects supported under the Capacity Building Grants Program will make a measurable difference in recruiting minority students to degree programs in the food and agricultural sciences at these important institutions of higher education. The Capacity Building Program holds great potential for contributing to cultural diversification of food and agricultural science and business professionals.

Question: What programs do you have to assist other colleges of agriculture in achieving cultural diversification goals?

Answer: Cultural diversification is a priority objective of USDA Higher Education programs. We encourage it through every initiative we undertake. The National Needs Fellowship Program has the exceptional record of 35 percent women participants. There are no racial or ethnic statistics available; however, information presented in proposals and observations by project directors indicate that this initiative will have a beneficial impact on diversification. Two other USDA programs that have great potential to increase diversity of student participation are the Institution Challenge Grants and the Morrill-Nelson Grants, both of which can be used to implement instructional programs that create cultural diversity.

Question: How do you view the success of the national needs graduate fellowships program and what are your goals for its growth in the future?

Answer: The Food and Agricultural Sciences National Needs Graduate Fellowships Program is the most successful initiative ever undertaken by the Department of Agriculture to assure the U.S. of the scientific expertise base essential for world leadership in food and agricultural systems. To date the program has recruited approximately 500 graduate students into critical expertise shortage areas. These fellows are characterized by absolutely superior intellectual and scholarly competence. The mean Graduate Record Examination score of the doctoral fellows supported thus far is 1,300, more than 300 points above the average graduate student in agriculture. These fellows, all U.S. citizens, were and are among the top five percent of doctoral students in American universities. Fellows who have completed their degrees have been employed by the Agricultural Research Service and the Economic Research Service of the Department of Agriculture, by major universities, in the private sector by such firms as Kellogg and General Mills, and even by the White House Council of Economic Advisors.

Our goal is to manage a cost-effective program which will most readily ameliorate the erosion of the scientific expertise base jeopardizing the U.S. food and agricultural sector. This objective is consistent with the report issued by the Federal Coordinating Council for Science, Engineering, and Technology--Committee on Education and Human Resources which recognizes that graduate education has been a major Federal responsibility for many years and continues to be an essential priority. The report further asserts that such support has proved highly successful in producing quality research scientists and is vitally important to ensuring the flow of talented, well-trained individuals into scientific careers.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

GRANT FUNDING

Question: For the past two years I have questioned CSRS about the inequity in the awarding of competitive research grants. I even visited with Dr. Hess on this issue during his lobbying visit on behalf of the National Initiative last year, and I was assured by him that CSRS was making great efforts in "capacity building" to help smaller agricultural universities compete.

However, I just recently looked through the CSRS Food and Agriculture Competitively Awarded Research and Education Grants publication for FY90 and was shocked over the ability of the same clique of schools to garner the lion's share of the "competitively" awarded grant funds, although I was less shocked when I reviewed the list of the cabal of the "peer reviewers" at the back of the document. Without question, the rich get richer, and their friends make sure it stays that way. The most distressing thing to note was that the University of Arkansas at Fayetteville was shut out of the process, and I know my inquiries in this area had something to do with that.

For the past two years, all I have gotten for my troubles are craftily drafted non-answer responses to my very serious questions, and I am committed that I will not allow it to happen again. I have supported the competitive process staunchly, have championed increased funding, and have sought special grants for my schools in Arkansas to help get them in the position to compete - under the mistaken belief that we had a true competitive process. Now I am determined that I must be a champion of reform.

What process do you have in place to increase the capacity of smaller agricultural schools to successfully compete for grant funding, and please give examples?

Answer: The universities that have not been traditionally successful in the competitively awarded grants have been of concern to us. The new National Research Initiative started in fiscal year 1991 provides us with an opportunity to make 10 percent of the National Research Initiative funds available to strengthen small and mid-sized institutions in which faculty have not been as successful in obtaining competitive grants. As directed by the

Farm Bill, 25 to 40 percent of these funds will be directed towards postdoctoral fellowships in order to strengthen research in the agricultural sciences at such institutions. Other strengthening areas that are currently going through rulemaking include: faculty research sabbaticals for mid-career faculty from eligible institutions to gain research experience at a research university and bring that experience back to their universities; start-up or seed grants for one year for scientists to obtain preliminary research information in order to compete for project grants; and strengthening project grants for faculty in small or mid-sized institutions not previously successful in obtaining competitive grants.

During the past 18 months the scientific staff of the Competitive Research Grants Office have been visiting universities that have not been traditionally successful in obtaining competitive grants and providing a full-day workshop on grantsmanship. This includes visiting individual laboratories and advising, on a one-to-one basis, how to better compete. Workshops have been held at fifteen institutions. Such visits will continue as we can schedule scientific staff away from their research grant management duties. We would be happy to provide such a workshop at the University of Arkansas if they are interested.

Question: Of the funds set aside for building construction (which would be ideal for capacity building), how are you going to insure that smaller agricultural schools participate significantly?

Answer: Building construction is unallowable under the National Research Initiative. However, the Administration's budget request for fiscal year 1992 proposes to establish a $25 million competitive facilities program. Small or emerging institutions would be eligible to apply for a facilities grant as long as they meet statutory criteria relating to eligibility.

Question: Please compare the relationship of the number and locations of peer review panel members and the number and locations of grants awarded - in detail?

Answer: The Competitive Research Grants Office has a complex procedure that must be adhered to when selecting panelists. Panelists are selected primarily based on their scientific expertise so that proposals are reviewed by experts in the various disciplines. In addition, panelists are selected based on their ability to give fair and comprehensive reviews, and on their experience in successful grantsmanship. Each particular panel must meet other criteria before approval: each must have a balanced geographical distribution with scientists from institutions throughout the United States, and each should have representation by women and minorities.

The Competitive Research Grants Office has strictly enforced rules of Conflict-of-Interests to assure the fairest review possible and one that judges proposals solely on scientific merit. To avoid conflict-of-interest, panelists are excused from the discussion of any proposals submitted from the panelist's home institution --institution is defined as an entity which has one governing body. The panelist is <u>not</u> allowed to see these

proposals, nor are they allowed to be present during any panel discussion of the work. The same rules apply if a panelist has a vested interest in the proposal such as having been an advisor to the investigator, is a collaborator on the proposal, has published with the investigator in the last 5 years or has a financial investment in the work. These rules serve to prevent any persuasion from a panelist regarding colleagues at their home institution, or colleagues with whom they are associated.

The number of panelists coming from a state generally indicates the size of the pool of available state scientists. Larger state pools provide the program with a greater opportunity to locate panelists with the necessary expertise to review proposals in specific scientific disciplines. The number of research proposals submitted from a state also tends to be driven by the number of scientists in a state. The number of grant awards is related to the number of submitted proposals.

The following table has been prepared to emphasize the relationship between the number of scientists, panelists, submissions and awards.

Competitive Research Grants Office Statistics (1984-1989)

State	# of Ph.Ds in State*	# of Panelists	# of Applications	#of Awards
ALABAMA	3,725	35	109	13
ALASKA	909	1	10	0
ARIZONA	4,340	31	150	49
ARKANSAS	1,775	9	64	10
CALIFORNIA	46,488	141	959	290
COLORADO	7,027	36	161	22
CONNECTICUT	6,876	21	102	19
DELAWARE	3,255	14	28	3
DIST. OF COL.	12,629	54	37	11
FLORIDA	9,004	57	334	73
GEORGIA	6,506	41	223	51
HAWAII	2,262	2	51	5
IDAHO	1,422	4	59	5
ILLINOIS	15,769	58	449	113
INDIANA	6,389	41	265	68
IOWA	3,721	51	206	54
KANSAS	3,100	20	167	42
KENTUCKY	3,479	13	149	41
LOUISIANA	4,666	19	463	18
MAINE	1,437	6	42	11
MARYLAND	15,613	41	286	63
MASSACHUSETTS	16,186	75	242	77
MICHIGAN	10,927	41	286	88
MINNESOTA	7,207	51	233	62
MISSISSIPPI	2,151	51	107	8
MISSOURI	6,602	19	267	65
MONTANA	1,330	4	67	5
NEBRASKA	1,091	23	153	30
NEVADA	4,246	3	52	13
NEW HAMPSHIRE	1,305	7	57	6
NEW JERSEY	14,003	19	144	21
NEW MEXICO	941	9	54	6

NEW YORK	36,737	77	638	179
NORTH CAROLINA	9,575	50	288	57
NORTH DAKOTA	2,284	10	70	8
OHIO	14,029	45	310	68
OKLAHOMA	3,704	17	137	20
OREGON	4,568	40	212	59
PENNSYLVANIA	17,943	42	228	52
PUERTO RICO	738	0	9	0
RHODE ISLAND	1,753	3	41	21
SOUTH CAROLINA	3,277	13	65	6
SOUTH DAKOTA	1,103	5	29	4
TENNESSEE	6,442	20	112	20
TEXAS	19,283	71	501	78
UTAH	3,206	20	127	20
VERMONT	1,468	32	39	7
VIRGINIA	10,281	1	188	30
WASHINGTON	8,082	52	280	69
WEST VIRGINIA	1,590	61	42	3
WISCONSIN	7,141	12	971	105
WYOMING	767	2	41	4

*Includes the Natural, Physical and Mathematical Sciences

Question: Do you support the proposition advanced by universities across the country that 14 percent is too low a percentage for the indirect costs allowance?

Answer: The U.S. Department of Agriculture has not taken an official position on the 14 percent cap on the indirect cost allowance. The Department Agriculture must maintain a neutral position on the cap on overhead. We do know that the 14 percent indirect cost does not cover all the audited indirect costs of a research project thus forcing an investment by the institution in each research project beyond supporting the salary of the investigators which is currently common practice. It is too early to fully assess the impact of the 14 percent cap on the fiscal year 1991 grants program, but the number of grants in program areas with an early deadline have not shown a decline.

HATCH FORMULA FUNDS

Question: Hatch formula funds are a significant funding base for the agricultural research being conducted in the U.S. More important than even the competitive and grant funds made available by the federal government, Hatch funds have been a key in the five-generation agricultural research success story. If the money was available, can you support the case being made for a significant increase in Hatch formula funds?

Answer: Hatch formula funds are the foundation upon which the remaining federal funds, including special and competitive research grants plus state and private industry funds, build. Funding of these core programs is a high priority because they support the basic laboratory facilities, scientists, and graduate students necessary for the long-term stability of agricultural research. These programs allow the institutions maximum flexibility to support research of the highest priority and, at the same time, assure the strong working relationship between the USDA and the State Agricultural Experiment Station system. An additional

positive effect of the Hatch funds is that many states exceed the minimum matching requirements so that the Hatch funds serve as a resource multiplier. At the present time, the ratio of Hatch Act funds to state appropriated funds is 1:4, a uniquely successful demonstration of the extended impact of federal funds. We place a high priority on maintaining support through the Hatch formula funds as a means to ensure the ongoing capability of the State Agricultural Experiment Stations to deliver quality research.

QUESTIONS SUBMITTED BY SENATOR HARKIN

WATER QUALITY

Question: All the surveys I have seen indicate farmers believe they are using too much fertilizer and pesticides, but they often find it very hard to cut back. Yet many farmers have found that they can improve profits and help the environment by carefully managing their use of chemicals and fertilizer.

I am very interested in what the Department is doing to help farmers with this problem. Has the Department, in planning its research and extension activities concerning water quality and environmental matters, established any goals or targets for reducing or limiting the levels of fertilizers and pesticides used in agriculture?

Answer: The USDA is concerned with helping farmers to improve the economic and environmental effectiveness of their use of chemicals and fertilizers. The Department's primary goal is to provide farmers, ranchers and foresters the knowledge and technical means to respond independently and voluntarily in addressing on-farm environmental concerns and related State water quality requirements. The target is to safeguard the Nation's ground and surface waters. Numerical quotas for reducing or limiting the levels of fertilizers and pesticides used in agriculture have not been established since agrichemical needs vary from farm to farm, and reducing chemical inputs is only one aspect of meeting the environmental goals and objectives. Site-specific soils, topography, climate, yield goals, management capabilities etc. must be considered in the development and adoption of technically and economically effective agrichemical management and agricultural production strategies that address water quality problems. ARS and CSRS/State Agricultural Experiment Stations --SAES-- have lead roles in conducting collaborative research to develop new and innovative farming systems that address water quality from a holistic viewpoint.

Question: Has the Department reached a conclusion, or is it even looking at the question whether we in the United States are using more pesticides and fertilizers than are needed in agricultural production?

Answer: The USDA Working Group on Water Quality has established a Subcommittee on Database Development and Evaluation. This Subcommittee has undertaken the task of the development of

comprehensive, consistent, national and state databases on agrichemical use and related practices. The objective of the program includes developing, analyzing, and disseminating timely, statistically reliable, and detailed data on farm use of pesticides, fertilizers, and related inputs. ARS and CSRS/SAES are providing cost analyses of farming practices and evaluations of economic impacts of water quality as part of a geographically-focused Midwest strategy that was initiated in 1990. At the same time, ARS and SAES scientists are developing new field and laboratory methods for rapidly, reliably, and inexpensively analyzing for plant nutrient requirements and pesticide residues. Advanced decision-aid systems are being developed by researchers that can be used by farm management specialists, Extension specialists, and farm consultants to help farmers select, apply, and manage profitable and environmentally sound crop and livestock production systems. Reductions in the use of pesticides and fertilizers is only one aspect of protecting, improving, and enhancing water quality since the application of lesser amounts of chemicals at the wrong time can also result in water quality problems.

Question: The Department's water quality research and extension projects appear to deal primarily with discrete and specific problems or situations. Yet it appears that in order to make real progress on water quality it will be necessary to use a "systems approach" that takes a much broader, more integrated view of farming practices and their relationship to environmental quality. What is the Department doing to develop such a systems approach to water quality and other environmental concerns?

Answer: The development of improved management of agricultural production systems that prevent contamination of ground and surface water depends upon understanding component mechanisms that govern the persistence and movement of agricultural chemicals through soil and geologic materials, and that govern how such chemicals become available in forms that readily move. Component research is being conducted jointly by ARS, CSRS, and the State Agricultural Experiment Station scientists, as part of the USDA Water Quality Program, for use in developing new agricultural management systems that reduce or prevent leaching of chemicals from farm fields to underlying ground water.

The systems approach is the central concept being used in the Geographic Systems research program of CSRS/SAES and ARS. Under this program, the Midwest Initiative on Water Quality was initiated in 1990 on a series of corn and soybean production sites known as Management Systems Evaluation Areas -- MSEA. These sites are located in Iowa, Minnesota, Missouri, Nebraska, and Ohio, with collaborative research being conducted in Kansas, Michigan, North Dakota, South Dakota, and Wisconsin. ARS, CSRS, State Agricultural Experiment Stations, with the cooperation of the Extension Service, Soil Conservation Service, U.S. Geological Survey, and Environmental Protection Agency, and other federal and state agencies, and industry are working together on farmer's fields to assess the impact of current and emerging farming systems on water quality.

Research by CSRS and SAES scientists uses the systems approach to develop conservation tillage systems to reduce soil erosion and loss of sediment in surface runoff. The STEEP program in the Pacific Northwest is an outstanding example of the systems approach in research to the development and integration of agricultural practices into farming systems to reduce soil erosion and protect water quality in the states of Washington, Oregon, and Idaho. Interdisciplinary research by CSRS and SAES scientists is also using the systems approach to address water conservation, rangeland ecology, and global change questions related to agricultural production.

SUSTAINABLE AGRICULTURE

Question: The Administration's budget calls for funding the sustainable agriculture research program at $4.5 million, down from the $6.7 million provided last year. Is this level of funding consistent with the policy direction of the 1990 farm bill, which, as I read it, is to give farmers more help in finding ways to reduce environmental risks while maintaining profitability and productivity?

Answer: The policy direction is consistent with the level of funding proposed in 1992. Sustainable agriculture research and education is also being conducted under other ES and CSRS programs and by ARS.

Question: What are the Department's plans for using the sustainable agriculture program for training extension personnel and others who advise farmers?

Answer: Approximately 80 percent of the grants awarded competitively under the USDA sustainable agriculture program involve participation by the Extension Service --ES. CSRS and ES are full and equal partners in this program. This program also supports Extension Service national initiatives such as the Missouri Decision Support and Minnesota Planetor programs. In 1991, the Department has a joint program effort with the Pollution Prevention Office of EPA. They are contributing $1.0 million to the USDA sustainable agriculture program to address four issues, one of which is an education program on sustainable agriculture for extension agents, SCS district/state conservationists, crop and pest management consultants, and farmers. Projects to be funded will establish and implement training activities to transfer technology on sustainable agriculture. The total amount spent on this activity, will be $0.5 million in 1991. We plan to continue this program in FY 1992. In addition, many state agricultural colleges, such as Nebraska, California, North Dakota, Minnesota, and Iowa, are conducting field days for extension agents and others on sustainable farming practices.

Question: Some criticize sustainable agriculture as not having a sufficient scientific basis. Has the Department developed an adequate scientific basis for its activities in the sustainable agriculture program?

Answer: In the guidelines used for selecting projects to be funded there are two criteria where the proposals must be rated

excellent or very good. One is "Program Goals" and the other is "Methodology". It states that: "All projects will be judged as to their effectiveness in building a knowledge base and in communicating to target audiences. In addition, projects containing experimental research components are expected to employ appropriate measurement procedures with replications and controls. Information from the projects should be easily accessible and clearly presented, so that the end user is motivated to take appropriate action."

All research projects are managed by an agricultural scientist and over 80 percent are associated with Land-Grant universities. When farmers are involved, they must be linked up with a scientist who sets the experimental design. One of the main purposes of the sustainable R & E program is to provide farmer ready results, so the emphasis is on applied integrated research.

Question: How do the goals of the Department's sustainable agriculture program compare with the goals of its water quality research and extension activities?

Answer: The central thrust of the Department's water quality initiative is to develop, test, and provide to farmers crop and livestock management systems that reduce the risk of agricultural chemicals reaching water supplies, particularly ground water. In summary, there are four elements to this program:

Component research involves individuals or small teams of scientists that develop information on processes that affect use of chemicals by plants, delivery of chemicals to all plant and pests, clean up and disposal of chemical wastes, and movement and fate of chemicals over and through soils;

Management Systems Research assembles research findings into a useful form for application. Current emphasis is on improved management systems for corn and soybean production in the corn belt;

There are sixteen water quality demonstration projects in the United States led by Extension Service and Soil Conservation Service which address non-point source pollution. These demonstration projects show new ways to minimize effects of agricultural nutrients and pesticides on water quality and promote use of these new practices. Projects in seventy-four hydrologic units are providing assistance to producers to address identified nonpoint source water quality problems.

Pesticide and nutrient use surveys are underway to establish a baseline against which to measure future changes in farmer behavior.

Sustainable agriculture programs address a wide range of issues in farm production. Research in this area attempts to reduce the reliance on purchased inputs and chemical controls through the application of crop rotations, biological controls, integrated pest management and other means. Specific practices may vary from farm to farm but typically include:

Crop rotations that mitigate pest problems; provide alternative sources of nitrogen, and reduce soil erosion;

Pest control strategies that are not harmful to natural systems, farmers, their neighbors, or consumers. IPM and biological control methods are important components;

Increased mechanical/biological weed control; more soil and water conservation practices; and strategic use of animal and green manures; and

Selection of synthetic chemicals whose use pose no significant hazard to man, animals, or the environment.

Question: How does the Department plan to coordinate its activities under the sustainable agriculture program with its water quality and other environmental activities?

Answer: Coordination is achieved through close interaction of the involved agencies in planning and operating these programs on a day-to-day basis. Many of the same agencies are involved in operating these programs and regular interaction of program officals provides ongoing coordination. In addition, working groups for water quality and global change have been established under the Department's Policy Coordination Council as a means to improve coordination in these programs. Subordinate operating groups provide a forum for active involvement of program staffs of USDA agencies and representatives from other Federal agencies. Finally, the FY 1992 Budget requests funding for the National Sustainable Agriculture Advisory Council pursuant to the 1990 Farm Bill. If funding is approved, this committee will provide assistance in coordinating those activities with other environmental programs.

Question: Would it not make sense for the Department to utilize the sustainable agriculture program as a way to bring more emphasis on a broader, integrated "systems approach" to the Department's water quality and other environmental research and extension activities, thus forming a linkage that would strengthen both areas of effort?

Answer: The USDA Water Quality Program takes a much broader, more integrated view of farming practices with a single target of safeguarding and enhancing the Nation's ground and surface water quality. The Sustainable Agriculture Research program has a number of goals, one of which relates to water quality. The Department views sustainable agriculture as one of the water quality-related intradepartmental programs and activities that must be coordinated with a number of others, but these separate programs should not be superseded or absorbed by another.

COMPETITIVE GRANTS

Question: How would the $4 million out of $125 million be spent on Processes and New Products if the Congress approves the full Administration Request for the Competitive grants initiative program.

Answer: The 1992 "Program Plan for the National Initiative for Research on Agriculture, Food and Environment" --NRI-- outlines the current proposed program areas including "Processes Antecedent to Adding Value or Developing New Products." Under this program area there are a number of Research Initiatives as follows:

-Improve the Sensory and Quality Attributes of Consumer Products
-Improve the Physical Properties of Food and Biomaterials
-Improve Packaging and Distribution Methods
-Improve Sensor Technology
-Improve the Bioengineering of Foods and Forest Products
-Improve the Bioprocessing of Foods, Feeds and Fiber
-Improve the Biotechnology of Processing Foods, Feeds and Fiber

In order to gain as much input from the users and performers of agriculture, food and related environmental research, the Assistant Secretary for Science and Education asked an informal group of users to meet with him to discuss the NRI. This informal group helped organize a series of user workshops, representing a variety of commodity, farm, business and environmental groups. These had the purpose of obtaining input directly from users on research needs as they relate to the initial year of funding and proposed future funding up to the $500 million per year goal. User Workshop results were provided to Science Planning Committees. Science Planning Committees were made up of scientists from universities and Federal laboratories and were to consider broad input from both the user and science communities. These committees represented the four funded areas of the NRI that were funded in fiscal year 1991 and were charged to translate user statements and science opportunities from their own perspectives into recommendations and priorities that were given to the Chief Scientist of the NRI for development of specific requests for proposals --RFP's-- in each funded program area of the NRI. The RFP's were then reviewed by the Board of Directors.

We are in the process of setting up the Science Planning Committees for the two Program Areas proposed for funding in fiscal year 1992, including Processes Antecedent to Adding Value or Developing New Products. The specific priorities will be recommended by these committees. At the $4 million per year level one or two research areas would be funded.

Question: How would $8 million be spent in this area if the Congress desired that funding level?

Answer: At the $8 million per year level two areas would be funded at higher levels. The specific areas will be recommended by the Science Planning Committee scheduled to meet in April of 1991.

NEW PRODUCTS SPENDING LEVEL

Question: Please provide the Committee with an analysis of the amounts that CSRS expects to spend in the Processes and New Products area. I am hopeful that the analysis will show a reasonable degree of detail concerning various categories of

activities and the specific programs which those funds are coming from. I would also like to see how that compared to what was spent in FY 90.

Answer: New products and processes planned spending levels by CSRS for fiscal years 1991 and 1992 total $13.4 and $14.7 million, respectively. The CSRS $13.4 million portion in 1991 shows $6.8 million in nonfood and $6.5 million in food, with $14.7 million budgeted in 1992 to be split with $7.1 million in nonfood and $7.6 million in food research and development. By comparison, actual fiscal year 1990 spending was $13.0 million, with $6.7 million in nonfood utilization research and $6.3 million in food research. Research on new products and processes is being carried out under the Hatch Act, Evans-Allen, McIntire-Stennis Cooperative Forestry, Special Research Grants, National Research Initiative Competitive Grants, and Supplemental and Alternative Crops programs. The 1992 budget proposes an increase of $4 million under the National Research Initiative for research on processes and new products.

Programs for crambe and industrial rapeseed, guayule, jojoba, and kenaf dominate new crops research and development. Total CSRS funding levels are shown in the following table:

	Actual FY 90	Estimate FY 91	Budget FY 92
	($ in thousands)		
Crambe/Rapeseed	571	759	467
Guayule	696	707	708
Jojoba	161	214	14
Kenaf	26	27	28
All Other	615	624	100
TOTAL	2,069	2,331	1,317

The crambe/rapeseed program focuses on industrial products made from the vegetable oils and the component high erucic acid and its derivatives to manufacture products such as plastics, nylons and lubricants. The guayule program goal is to establish a domestic natural rubber industry based on high molecular weight rubber for aircraft and land vehicle tires and includes products from the low molecular weight rubber resins and bagasse plant material fractions. The jojoba project aims to develop cosmetics and industrial lubricating products from jojoba's liquid wax ester oil. The kenaf program is nearing commercialization in the private sector with a $50 million newsprint mill scheduled for construction in 1991. Numerous other products are under development, such as lightweight coated sheet, composites, poultry litter and carpet backing.

QUESTIONS SUBMITTED BY SENATOR ADAMS

WASHINGTON PROJECTS

Question: Please indicate the amount of funding appropriated in FY 1991 and the amount of funding requested by the Administration in FY 1992 for the following research activities. If funds are not specifically requested for the activity, please indicate the amount of funding the Administration anticipates spending on the activity in FY 1992. Also, please indicate the amount of funding and types of activities expected to be carried out in Washington state.

- Food and Environmental Quality Research Lab at Tri-Cities, Washington
- Cool season legume (pea & lentil) research
- Pesticide clearance (IR-4)
- Regional barley gene mapping
- Small fruit research
- STEEP II research
- Tri-state potato research
- Animal Disease Biotechnology Facility at WSU
- Russian wheat aphid research
- TCK Smut research

Answer: The following information will be provided for each project: FY 1991 appropriation, FY 1992 budget request, other CSRS related funding in FY 1992 supporting this area of work on a national basis, FY 1991 net special grant funding to Washington, and an explanation of the FY 1991 work.

Food and Environmental Quality Research Lab at Tri-Cities, Washington

FY 1991 Special Grant Appropriation - $484,000
FY 1992 Special Grant Budget Request - $0
FY 1992 Other CSRS Related Research Funding - $1,688,000
FY 1991 Special Grant Funding to Washington - $458,832 of which $60,000 will be subcontracted to Idaho and Oregon and WSU will retain $398,832.
FY 1991 Activities in Washington - This grant is directed to the States of Washington, Idaho and Oregon for food quality/pesticide research with Washington State University as the lead organization. The purpose is to strengthen pesticide analytical and informational capabilities of the three northwest states. In the first three year period, emphasis will be placed on developing the Washington State University Tri-Cities campus pesticide laboratory, on improving existing pesticide analytical laboratories at Oregon State University and the University of Idaho, and on establishing cooperative pesticide analytical and informational programs in the tri-state region.

Specifically for Washington State the following are being undertaken:

o Initiation of a three year process of developing the Tri-Cities Campus laboratory at Richland.

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- o Establishment of tri-state computerized management information system that will include a uniform laboratory information management system, decision support system and an office automation system.
- o Educational system program outreach.
- o Regional pesticide program coordination built on a management committee from the tri-state region.

Cool season legume (pea & lentil) research

FY 1991 Special Grant Appropriation - $375,000
FY 1992 Special Grant Budget Request - $0
FY 1992 Other CSRS Legume Research Funding - $443,000
FY 1991 Special Grant Funding to Washington - To be determined
FY 1991 Activities in Washington - This grant is being administered by the University of Idaho with funds designated for the following land-grant universities: Washington, Wisconsin, Michigan, Minnesota, Oregon, Montana, California, and New York. The proposal has been requested but not yet received, therefore, the dollar breakout by State is not yet known. To date, a steering committee has been established. Four major research thrusts have been identified. These are genetics/germplasm, plant protection, crop and ecosystem management, and human nutrition and product development. The proposed research will be on agronomic production of peas, lentils, and similar cool season legumes.

Pesticide clearance (IR-4)

FY 1991 Special Grant Appropriation - $3,000,000
FY 1992 Special Grant Budget Request - $3,000,000
FY 1992 Other CSRS Pesticide Clearance Funding - $432,670
FY 1991 Special Grant Funding to Washington - $13,000 (Tentative)
FY 1991 Activities in Washington - Washington State University participates in the IR-4 project and receives funds from the Pesticide Clearance Special Grants Project. These funds support research for the collection of pesticide residue levels in crops grown in the State. Additionally, the State has an IR-4 State Liaison Representative who compiles State requests for pesticide needs and articulates these needs at IR-4 priority establishment sessions. Washington State researchers are conducting 15 field residue studies without IR-4 funding, but under the supervision and established protocols of Good Laboratory Practices -- GLP -- of IR-4. These projects are funded primarily by the mint and hop grower organizations or pesticide industry. CSRS funded field research is on cucumbers, strawberries, raspberries, cranberries, lentils, and cabbage.

Regional barley gene mapping

FY 1991 Special Grant Appropriation - $262,000
FY 1992 Special Grant Budget Request - $0 - However, this project would be eligible to compete for funds proposed for plant genome mapping within the National Research Initiative.
FY 1992 Other CSRS Related Research Funding - $140,000

FY 1991 Special Grant Funding to Washington - $248,376, of which $196,000 will be subcontracted to seven other collaborators and WSU will retain $52,376.

FY 1991 Activities in Washington - The leadership coordination activities in this multi-institutional project has been provided by Washington State University scientists. In addition to administration of the subgrants, scientists at WSU have generated and maintained essential barley genetic stocks, produced a portion of the Restriction Fragment Length Polymorphism --RFLP-- probes, provided coordination of the c-DNA libraries and organized the preliminary RFLP maps. In addition, screening of agronomic traits has begun as the project collectively works toward the application of this technology to barley genetic improvement.

Small fruit research

FY 1991 Special Grant Appropriation - $125,000

FY 1992 Special Grant Budget Request - $0

FY 1992 Other CSRS Related Research Funding - $2,576,000

FY 1991 Special Grant Funding to Washington - $50,018

FY 1991 Activities in Washington - Since the Pacific Northwest -- Washington, Oregon, Idaho -- is the center of the United States for the production and processing of many premium small fruits, scientists at Washington State University, Oregon State University, and University of Idaho will work together on this grant to assist the small fruit industry. Washington scientists are going to perform research on the influence of climate, breeding and diseases on cold hardiness and yield of raspberries and strawberries; screen strawberry germplasm from Chile for beneficial horticultural and pest resistance traits that can then be used in the Washington strawberry breeding program; improve the quality of Washington wines through better malolactic fermentations; and improve pruning of grapes to reduce winter injury of the grape vines.

STEEP II research

FY 1991 Special Grant Appropriation - $980,000

FY 1992 Special Grant Budget Request - $0

FY 1992 Other CSRS STEEP-II Related Research Funding-$10,631,000

FY 1991 Special Grant Funding to Washington - $309,680

FY 1991 Activities in Washington - STEEP II -- Solutions to Environmental and Erosion Problems -- is a tri-state directed research program to develop cropping production systems in the Pacific Northwest that are economically feasible and reduce or prevent erosion and subsequent siltation and degradation of surface streams and rivers.

Projects funded under STEEP II test long-term, soil conservation-oriented concepts and practices that reduce soil erosion in this highly erodible area. Scientists are designing and adapting to the region profitable crop rotations, with legumes or other alternative cover or green manure crops, to control erosion, protect crop health, and reduce need for chemical inputs. To meet farm program compliance for erosion control, some cropping systems use

reduced or no-till practices and require fertility management techniques that maximize nutrient use efficiency and minimize loss of chemicals by leaching and run-off. As a result of changes in tillage practices, new pests and diseases must be countered by rotation strategies, breeding for resistance, and chemical treatment.

Similarly, the fate of agricultural chemicals is being evaluated. Models and expert systems predict the loss of chemicals due to erosion and the effects of landscape position, divided slopes and slope aspect, landform shape, and tillage practices. Other models predict the impact of conservation management options on run-off erosion and subsequent siltation and surface water degradation. Finally economic analysis of costs and profitability of cropping systems provides the farmers with estimates of the benefits of such practices. New technologies and practices are being tested and evaluated in large-scale, on-farm tests as well as laboratory and research plot evaluations.

Tri-state potato research

FY 1991 Special Grant Appropriation - $1,371,000
FY 1992 Special Grant Budget Request - $0
FY 1992 Other CSRS Potato Research Funding - $2,989,000
FY 1991 Special Grant Funding to Washington - $183,705
FY 1991 Activities in Washington - Clones from crosses and early generation selections of the USDA Potato Breeding program at Aberdeen, Idaho, have been grown and evaluated at the Washington State University Othello Research Unit each year under this program since 1984. Clones that show potential in these trials are advanced to the Western Regional Trial for evaluation. From this trial the new cultivars for the area are selected. Since its origin, three clones have become named cultivars, and at least two additional clones are now being considered for naming and release to the public.

Animal Disease Biotechnology Facility at WSU

FY 1991 Building and Facility Appropriation - $1,210,000
FY 1992 Building and Facility Budget Request - The University may compete for funding under the competitively awarded Buildings and Facilities program that is being proposed.
FY 1992 Other CSRS Related Funding - $0
FY 1991 Building and Facility Funding to Washington - $1,173,700
FY 1991 Activities in Washington - Funds will be used for planning an Animal Disease Biotechnology Facility at Washington State University to be integrated with a State funded Veterinary Teaching Hospital. These new facilities will be used to sustain and expand research, instructional and outreach programs related to important disease problems in agricultural animals.

Russian wheat aphid research

FY 1991 Special Grant Appropriation - $350,000
FY 1992 Special Grant Budget Request - $0

FY 1992 Other CSRS Russian Wheat Aphid Research Funding-$450,000
FY 1991 Special Grant Funding to Washington - $93,717
FY 1991 Activities in Washington - The project in Washington State is evaluating predators, parasites and pathogens of the Russian Wheat Aphid (RWA). Some of these natural enemies came from cooperative inter-state, multi-agency biological control programs and part have been obtained from foreign exploration in South America by scientists in Washington. Additionally, advanced lines of resistant wheats and barleys coming from the cooperative Oregon and Idaho breeding effort are being evaluated under Washington conditions. Flight behavior of grain aphids is being monitored so as to predict when problems will occur. Data have been provided to producers to provide pesticides at rates that selectively conserve predators and parasites and guidelines for timing of application so that pesticides are used effectively, but in minimal amounts. The information is being disseminated to producers via a newsletter titled, "The Washington Aphid Report."

TCK Smut research

FY 1991 Special Grant Appropriation - $250,000
FY 1992 Special Grant Budget Request - $0
FY 1992 Other CSRS Related TCK Smut Research Funding - $544,000
FY 1991 Special Grant Funding to Washington - $63,990
FY 1991 Activities in Washington - In research on smut identification, Washington scientists will use molecular methods to clarify the taxonomy of the smut fungi. A DNA diagnostic technique will be developed as a means for fool-proof identification of smut species. In efforts to destroy smut contaminants of grain, isotope irradiation will be continued and chemicals, such as sodium hypochlorite --bleach-- will be used in pilot-scale tests on grain. In development of wheat cultivars resistant to smut, genetic engineering and wheat genetic transformation will be used to identify genes that stimulate natural defense reactions. Classical breeding work will continue.

McINTIRE-STENNIS COOPERATIVE FORESTRY

Question: According to the proposed budget, the distribution of funds under the McIntire-Stennis Cooperative Forestry Research Act will result in a decrease for institutions in Washington state. Funds for WSU will decline from $269,419 in FY 1991 to $193,477 in FY 1992; funds for the University of Washington will decline from $329,290 in FY 1991 to $236,472 in FY 1992. What is the rationale for the proposed decrease in funding for these two institutions?

Answer: The fiscal year 1992 budget proposes a $4.8 million decrease in the McIntire-Stennis Cooperative Forestry program. This decrease in the total program must be shared by all institutions eligible to receive funds under this formula program. Funding to the two eligible institutions in Washington must be reduced accordingly under this proposed program reduction.

BUILDING AND FACILITIES

Question: The CSRS budget proposes a reduction of $66.8 million for buildings and facilities, noting that institutions will be eligible to compete for funds under the competitively awarded facilities program. What is the amount of funding requested by the Administration for the CSRS competitively awarded facilities program in FY 1992? Please provide the criteria for institutions interested in applying for funds under this program, and describe the projected timetable between the date an application is filed, the date awards will be decided and the date the money is actually disbursed.

Answer: The Administration has requested $25 million for fiscal year 1992 to begin a research facilities program based upon competitive merit review. To the extent that these construction funds are awarded competitively and not earmarked, this program is recommended for continued funding in the outyears at a level equal to 20 percent of the National Research Initiative's funding level.

This program will be carried out under the authority of the Research Facilities Act of 1963. The statute requires non-Federal matching funds and is open to all State agricultural experiment stations, Colleges of Veterinary Medicine, Schools of Forestry, and the 1890 Land-Grant Institutions and Tuskegee University. To ensure support for the best projects, it is proposed to carry out the program in two phases, both involving merit selection. Phase I would require submission and review of pre-proposals. Institutions with the most competitive proposals would be invited to submit Phase II applications for a second round of evaluation, with final selectees also receiving an on-site visit.

All projects would be evaluated using established procedures and written criteria designed to determine relative merit related to the project's meeting high-priority needs in the food and agricultural sciences, the applicant's commitment and capacity to support the program and match the costs of construction, qualifications and experience of key personnel to manage the project, and reasonableness of budget request. Proposals will be evaluated in accordance with the following criteria:

1. Degree to which the program(s) to be housed in the facility address high-priority needs in the food and agricultural sciences, as articulated in the National Research Initiative.

2. Expected contribution of the facility toward meeting national, regional, and institutional research and education needs in the food and agricultural sciences.

3. Evidence of the institution's commitment and capacity to provide the faculty, support staff, operating funds, and students necessary to support a quality program in the proposed facility.

4. Qualifications and experience of key project personnel to plan and manage the construction effort, including occupancy in the near-term future.

5. Reasonableness of budget request and evidence of applicant's ability to participate in project costs.

It is planned that the program would be announced in early October, with Phase I proposals due on or about December 1 and initial evaluation scheduled for February 1. Phase II proposals would be due on or about May 1, with final evaluation scheduled for the middle of June and site visits to be conducted in July. Awards would be made early in September and funds could be released by late September.

QUESTIONS SUBMITTED BY SENATOR KERREY

NATIONAL RESEARCH INITIATIVE

Question: Section 1615(b) of the Farm Bill directs that sustainable agriculture be emphasized in the NRI. What steps will the Department take to ensure that this emphasis is reflected in NRI "Request for Proposals" and in the proposal evaluation process?

Answer: Sustainable agriculture is a timely and vital issue which must be included as a major component of any research thrust such as the NRI. The Department has made efforts to include and emphasize research in the area of sustainable agriculture even during the first year of the Initiative. Based on input received from users, commodity and environmental groups; the ESCOP budget Planning Committee; and Science Planning Committees, the Department developed requests for proposals. These groups had representatives with interest in sustainable agriculture. Based on suggestions from members of these groups, the Request for Proposals --RFP-- developed for 1991 had emphasis on sustainable agriculture in a number of different program areas. The Plant Pest Interactions Program emphasizes research on natural --biological-- control of plant pests, on development of pest resistant plants and on understanding the interactions of the pests with their environment. Research such as this will provide the necessary data to develop ways to control pests with the least dependence on chemical application or with the least damage to the environment. The Plant Molecular Biology and Genetics and Plant Genome Programs are emphasizing the search, characterization and mapping of stress resistant genes, and the Plant Responses to the Environment emphasizes the physiological mechanisms by which plants respond to abiotic stresses. The isolation of these genes and the understanding of plant response will provide valuable information for producing and growing plants with less requirements for water, fertilizers, and pesticides. Today's high yield crops, requiring high inputs of water, fertilizers and pesticides are a result of years of selection; time being a luxury that breeders no longer have. The Photosynthesis program seeks an understanding of the mechanisms of plant solar energy transformation, as a basis for rapid engineering of high yield crops which do not require high inputs. Basic research in the area of Nitrogen Fixation and

Metabolism provides information which may lead to less use of nitrogen-based fertilizers. The Animal Reproduction Program emphasizes studies which contribute to the basic concepts necessary to promote animal production with reduced need for hormonal supplement and drug therapy of domestic animals. The Cellular and Molecular Basis of Disease Program will support research which elucidates the mechanisms by which animals fight disease. Research in this area will lead to effective means by which to promote animal health without the use of antibiotics or chemically based disease control strategies.

In order to properly review proposals in the area of sustainable agriculture panelists are chosen based on their expertise in the area. In addition, ad hoc reviewers are used to independently appraise the research proposals. These ad hoc reviewers must also possess the knowledge of sustainable agriculture to review proposals in that area.

AGRICULTURAL SCIENCE AND TECHNOLOGY REVIEW BOARD

Question: Will the Department of Agriculture provide funding or request funding for the Agricultural Science and Technology Review Board? If not, why not?

Answer: The Department of Agriculture has requested an increase of $631,000 for Advisory Committees in fiscal year 1992. The Department has been re-evaluating distribution of Advisory Committee funds based on requirements of the Food, Agriculture, Conservation, and Trade Act of 1990, which authorized the Agricultural Science and Technology Review Board. The Department plans to establish this committee, pending availability of funding. The 1992 estimated cost for this committee is $65,000.

WATER QUALITY

Question: Will nonprofit organizations be eligible for grants made under the Water Quality Research and Education Program in fiscal year 1992?

Answer: Nonprofit organizations are currently eligible to participate in two of the three CSRS programs that fund research in or related to water quality, the National Research Initiative Competitive Grants Program and the Sustainable Agriculture Program. CSRS is in the process of developing administrative guidelines to implement the revisions to the Special Grants program as amended in Section 1616 of the Food, Agriculture, Conservation and Trade Act of 1990. It is our intent to open the Special Grants program to the broadest range of eligibility under the authorization in fiscal year 1992.

QUESTION SUBMITTED BY SENATOR BYRD

NATIONAL YOUTH SCIENCE CAMP

Question: In FY 1990 and FY 1991, funding was provided through the Cooperative State Research Service to undertake a feasibility study on the expansion of the National Youth Science Camp. The National Youth Science Foundation's education program has been conducted since 1963. When will this feasibility study be completed, and do you feel that this science education program should be expanded?

Answer: The feasibility study, to be completed in 1992, on the expansion of the National Youth Science Camp will allow selection of the best curriculum of interest to youth in science. Several approaches and courses must be tested to select the most appropriate curriculum, but not simultaneously. Proper testing of curricula alternatives is required during a period of several terms for reliable evaluation.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

AGROACOUSTICS RESEARCH

Question: I understand that a USDA review team headed by Dr. Daniel Kugler of the CSRS recently visited the campus of the University of Mississippi and the National Center of Physical Acoustics. We hope they were impressed. Could you comment for us on the areas within the USDA that could benefit or have benefitted from the use of acoustics, as applied to agriculture?

Answer: The USDA review team visited the National Center for Physical Acoustics on February 14, 1991. Dr. Kugler, team leader, reports that the agricultural program is achieving results which may be of research and commercial value. Presently, applications of acoustics technology are seen most promising in aquaculture, entomology, and soils.

Question: What are the major potential impacts of current and previous research in the general area of agroacoustics?

Answer: In aquaculture, development of side- and down-looking sonar instruments has reached a stage which can result in benefits to producers. Instruments can estimate fish numbers, biomass, and distribution to improve production ... feeding, oxygen delivery, use of chemical therapeutants, etc.

Acoustic responses from soils can be used to measure important characteristics or coefficients for infiltration, runoff, and erosion. Such devices are being developed cooperatively with ARS - National Sedimentation Lab and may become next generation field testing equipment for soil conservation planning.

In cooperation with many USDA agencies, inexpensive acoustic devices are being developed to detect larval/insect/pest activity

in citrus, grain, nuts, and other agricultural commodities. For entomology, early, nondestructive detection of pest activity offers government and industry potential economic benefits through prevention of loss in commodity storage and movement/transport of pests to non-infested areas.

Question: What are the potential areas with highest promise for the development of techniques and processes toward technological applications utilizing acoustics?

Answer: The linkage between acoustics and agriculture is still very new. The use of acoustics instruments for early detection of pest activity in storage of grains is promising and may reach the testing stage at commercial facilities this year. Sonar devices for monitoring fish behavior are likely to reach the marketplace in the very near future for use in improving and enhancing production efficiencies.

INTEGRATED CROP MANAGEMENT VS. SUSTAINABLE RESEARCH

Question: The President's budget includes $4.5 million through CSRS for sustainable research which focuses very narrowly on low-input solutions to environmental problems. At the same time, the budget provides no funding for the Integrated Crop Management Program, authorized in the 1990 Farm Bill, which looks more broadly at farming operations, practices, and systems which increase production and are environmentally sound. Can you give me the Department's reasoning behind this allocation of funds?

Answer: The Department strongly supports the goals of The Integrated Crop Management Program, as related to farming operations, practices and systems that are highly productive and environmentally sound. The Guidelines for the Sustainable Agriculture Research and Education Program administered through CSRS in cooperation with ES, clearly state that the highest priority is given to integrated systems projects dealing with whole farms and natural systems. These systems must be profitable to be sustainable. And the profitability of an individual practice or enterprise cannot be assessed without taking into account the entire farming operation. This is why we insist on including economic analysis of the alternative farming methods developed or incorporated in the sustainable agriculture projects we fund.

Low-input solutions to farming practices never meant that nutrient and pest management issues should not be addressed, but that on-farm options should be developed to their fullest potential. As stated in a 1988 Secretary's Memorandum -- "There is a need for farmers to have choices, including systems that minimize use of purchased inputs."

In Subtitle B, Title XVI, of the 1990 Farm Bill CSRS has the lead responsiblity for Chapter 1 - Best Utilization of Biological Applications and ES has the lead responsibolity for Chapter 2 - Integrated Management Systems. In FY 1992 the two agencies plan to continue managing this program jointly in similar manner as we have the past three years. However, some changes will occur to reflect the requirements in the 1990 legislation. Extension Service will take the lead in implementing Chapter 3 - Sustainable Agriculture

Technology Development and Transfer Program in close coordination with CSRS and ARS.

AQUACULTURE EDUCATION

Question: Last year, funding was provided to initiate an aquaculture education program within the vocational agriculture curriculum. What is the status of this project? Has there been good reception by the schools of this program, and how long will it be before all of the Agriculture programs have access to materials and training available to them?

Answer: The FY 1990 funds appropriated for infusing aquaculture into the vocational agriculture curriculum were awarded to the National Council for Agriculture Education. The objectives of the Council's project are twofold: one, to develop a new aquaculture curriculum for classroom student instruction for vocational agriculture; and two, to develop aquaculture laboratory exercises for vocational agriculture students. Subcontracts have been entered into with the Oceanic Institute of Hawaii, Iowa State University, and the Gulf Coast Research Institute of Mississippi to develop these materials. The Council is currently soliciting applications from high schools to serve as pilot sites for testing the new curriculum. An experienced curriculum writer has been hired to coordinate the program, and a panel of experts selected from the fields of education and aquaculture is reviewing materials prior to testing them in 1991 at six field sites. Teacher inservice training will take place nationwide during the summer of 1992. We estimate that some schools will be using these materials in two years' time.

COOPERATIVE FORESTRY RESEARCH

Question: In the FY 1991 bill, Congress appropriated $18,316,000 for the McIntire-Stennis Cooperative Forestry Research program. For the last several years the final funding level has been an average of $17.5 million. This year, the budget request is only $12,975,000 -- a 30% reduction.

In reviewing the research and extension budget, I also note that all other formula funding programs -- Hatch Act, Smith-Lever, formula funding for the 1890 Institutions and Tuskegee -- have been increased over last year's level. Why is it that the McIntire-Stennis formula funding program has been treated differently and been reduced? What impact will a reduction of this size have on the on-going cooperative forestry programs throughout the country?

Answer: Since the State and other Federal research institutions can conduct forestry research under other authorizations and in view of other budget priorities, a decrease in funding was recommended for the McIntire-Stennis program.

Impacts of the reduction proposed would be primarily to reduce the numbers of graduate students, elimination of some research funding to scientists, and, in some institutions, a reduction in numbers of research personnel.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SALMONELLA ENTERITIDIS

Question: Salmonella enteritidis continues to pose a great threat to the egg and poultry industry nationwide and in Pennsylvania. SE, as it is referred to, is suspected to be transmitted from infected laying hens directly into the interior of the egg before the shells are formed. This development, in turn, makes tracking the infection much more complicated and possibly extremely damaging to the producer. To what degree has the Cooperative State Research Service conducted research in the area of Salmonella enteritidis?

Answer: The Cooperative State Research Service has been providing funding for projects which address the critical issue of Salmonella enteritidis through the Special Grants program in Animal Health and through formula funds distributed to land grant institutions in the Hatch and 1433 Formula Funds for Animal Health. In the Special Grants area, we have provided over $500,000 in fiscal years 1989 and 1990 with a special focus on improved diagnostic methodologies, development of vaccines against this organism in the chicken and studies on the role which the transovarian transmission of this organism plays in the spread of infection. Additional proposals have been received on this important topic in the current cycle of competitive grants under the National Research Initiative and are now awaiting review by scientific panels. The agency views this as a most serious problem and we have an active involvement in the interagency effort to control Salmonella enteritidis in poultry flocks and prevent the occurrence of human disease due to this organism.

NATIONAL RESEARCH INITIATIVE

Question: I am pleased with developments of the National Initiative for Agriculture Research. Last year's appropriation put the Initiative on the map and the request by the Administration for fiscal year 1992 proposes a budget of $125 million. The goal by the National Association of Land-Grant Colleges and Universities, as well as the Experiment Station Director's National Organization, continue to outline a need for $500 million annually. What conditions do you see necessary to reach this goal of $500 million?

Answer: The U.S. Department of Agriculture and the Office of Management and Budget have made a commitment to request increases of $50 million per year, provided that funds are made available for competitive award. This, of course, requires subsequent Congressional support.

Question: The President's request for the National Research Initiative contains $2 million for advancements in markets, trade, and rural revitalization. Could you please describe the areas which could be developed under this title if fully funded?

Answer: The program area of Markets, Trade and Policy has six research initiatives to be developed when the National Research Initiative is fully funded:

- o Enhance Foreign Trade by Understanding Markets and Trade
- o Enhance Rural Development
- o Improve Economic Performance
- o Evaluate the Impacts of New Agricultural Technologies
- o Enhance the Stability and Well-Being of Families, Youth, and Elderly
- o Improve Research Education Policy for Agriculture and Rural Society

The specific areas will be recommended by the Science Planning Committee scheduled to meet in April of 1991.

AGSAT

Question: The Agriculture Satellite Corporation (AGSAT) is a consortium of 36 land grant universities working together to efficiently use the technical capabilities of the satellite communications system to deliver education, extension and research programs across the country. The 1990 Farm Bill authorized funding up to $12 million to support the development and distribution of programming over the AGSAT and other networks. Although the President's fiscal year 1992 budget request did not contain funding for this program, there exists widespread support for AGSAT and its continued development. Accordingly, what do you foresee as the benefits of satellite television programming in the area of agriculture education and research?

Answer: The ability to transmit information via satellite opens up new opportunities for extension, teaching, and research generally in the food and agricultural sciences. Telecommunications transmission is a more flexible, efficient, and economic way to provide access to information than traditional delivery systems. Some benefits include the opportunity to serve nontraditional audiences, reduce travel budgets, expand enrollment, and utilize faculty to meet needs at other institutions. In addition, the cooperative nature of the AG*SAT organizational structure could increase the potential for higher quality programming, originating from multiple sites across the nation.

Question: It has been projected that there will be a 10 percent shortfall in the number of graduate Ph.D.'s in agriculture disciplines over the next 10 years. With the Department's developments with the National Research Initiative and expected expansion into new areas of agriculture research, wouldn't you agree that a program of agriculture research could benefit under an agriculture satellite network and couldn't this network help to attract qualified individuals into the agriculture disciplines.

Answer: The impact of the National Research Initiative will undoubtedly mean expansion into new areas of agriculture research on the part of researchers, who are likely to be spread across the country. The availability of satellite transmission capabilities would complement other means of electronic communication to facilitate collaboration and information dissemination among those researchers working on similar topics. The speed and clarity of communication will undoubtedly facilitate new discoveries and speed up the discovery process.

QUESTIONS SUBMITTED BY SENATOR NICKLES

EXPANDED WHEAT PASTURE RESEARCH

Question: In fiscal year 1989, Congress appropriated a $400,000 CSRS special research grant for first year funding of an expanded wheat pasture research program conducted by Oklahoma State University. In fiscal year 1990, budgetary pressures necessitated a reduction in the appropriation for this project. A $150,000 CSRS special research grant was appropriated in fiscal year 1990. In fiscal year 1991, the appropriation for this project was fortunately increased to $275,000.

The Expanded Wheat Pasture Research Center is already making good progress and is developing crucial research information for the wheat and cattle industries. It is imperative that we appropriate sufficient funds to continue this worthwhile effort. What is CSRS funding capability for this project in fiscal year 1992?

Answer: The Special Research Grants program concentrates on problems of national and local interest beyond the normal emphasis in the formula programs. The Hatch Act formula and related base funded programs constitute the core of the State-Federal research partnership and, when put together with State funding, provide the basic laboratory facilities, scientists, graduate students, and support necessary for the long term stability of agricultural research. Thus, these base programs are a high priority of the State-Federal research partnership. Due to the discretionary nature of the Hatch Act formula and related base funded programs, amounts allotted to State institutions permit the institutions to fund research in those areas that they identify as high priority. This flexibility could provide for maintaining this program if Oklahoma State University wishes to continue the research. Also, the University could submit a grant proposal for this research area under the Plant Systems categories of the National Research Initiative.

NATIONAL CENTER FOR EQUINE AND BOVINE BIOTECHNOLOGY RESEARCH

Question: In 1988, Oklahoma State University received a $50,000 grant, matched by the state, which funded a feasibility study for this project. In 1990, Congress appropriated $290,000 to plan and promote the project.

This facility would be located on-campus near the College of Veterinary Medicine. The Center would conduct molecular biology research on horses and cattle. Oklahoma State University is seeking construction funding of $4.5 million, to be matched by the state, for a total construction budget of $9 million. What is CSRS funding capability for this project in fiscal year 1992?

Answer: The Administration's budget request for fiscal year 1992 includes $25 million to establish a competitive research facilities program in CSRS. Oklahoma State University will be eligible to compete for funds under this program.

Question: Is comparable research being conducted anywhere else in the United States?

Answer: Few facilities in this country are capable of biocontainment for livestock outside of the Federal laboratories. There are several other institutions including Iowa State University, Washington State Univeristy, Texas A&M University, University of Illinois, and University of Georgia which have the capability to conduct research on diseases of cattle and horses, including the use of biotechnologic methods. In some instances, these institutions have limitations on the amount and type of research which can be performed because the biocontainment facilities for large animals are not extensive. These research programs are focused on bacterial, viral, and parasitic diseases of cattle and horses.

OKLAHOMA RESEARCH COMPLEX FOR ALTERNATIVE AGRICULTURAL SYSTEMS

Question: In November 1990, Langston University submitted a proposal for a $15 million alternative agriculture research facility. What is the funding capability for this project?

Answer: Langston University will be among the institutions eligible to compete for support under the competitive research facilities initiative proposed by the Administration for fiscal year 1992. It is the intention of CSRS to award all projects on a 1:1 matching formula.

Question: Do you anticipate that this facility would duplicate other current alternative agriculture research efforts being conducted by USDA?

Answer: Based upon initial information received from Langston University prior to receiving a formal proposal or conducting an on-site visit, it is CSRS' understanding that the alternative agricultural efforts at Langston are focused primarily on the development of the goat industry for the Nation. The program operates out of the unfinished E. --Kika-- de la Garza Institute for Goat Research and focuses on dairy, angora and cashmere goats. While research projects are being conducted on dairy goats at other 1890 institutions and a limited number are conducted at other institutions, there is coordination with the effort at Langston University. Almost 70 percent of Langston's research resources are devoted to development of the goat industry as an alternative agricultural enterprise. More recently, agroforestry has been added to the Langston program via cooperation with Forest Service to enhance the environment and increase forest production without using chemical sprays. In addition, Langston is field training Soil Conservation Service personnel in the use of goats as an environmentally friendly method of improving pastures and conserving soil.

Because of the scope of research being conducted at Langston, CSRS does not anticipate that this program duplicates any other program supported by USDA either in-house or extramurally.

SPECIAL RESEARCH GRANTS

Question: The President's budget proposes not to continue special research grants for Preservation and Processing and Integrated Production Systems in Oklahoma. Please summarize the progress of these grants and detail how these issues are being addressed by other USDA research programs.

Answer: The special research grant for Preservation and Processing in Oklahoma is supporting research to develop new and improved storage conditions for strawberries, blueberries, and peaches, which will insure that high quality produce reaches the consumer market. Instrumentation is being developed to assess the effect of bruising on produce being shipped to the market. Many of the factors affecting product deterioration of asparagus, snapbeans, and tomatoes in storage, such as loss of water, photosynthate and minerals, type of packaging, and storage conditions have been evaluated and published. Results will be integrated with results from similar tests conducted elsewhere by other USDA research programs.

The special research grant on Integrated Production Systems in Oklahoma is supporting research in southeastern Oklahoma to develop cultural practices for tomatoes and strawberries being intercropped with other species to develop the best combination of practices which will result in improved insect and disease control. Only one year's data has been collected. At the present time, research data is not being collected/evaluated under similar climate and soil conditions by scientists elsewhere.

QUESTIONS SUBMITTED BY SENATOR BOND

ALTERNATIVE AGRICULTURAL RESEARCH AND COMMERCIALIZATION ACT OF 1990

Question: Subtitle G (Short title: "Alternative Agricultural Research and Commercialization Act 1990") of the 1990 Farm Bill had the expressed purpose of creating a climate to research and commercialize new non-food, non-feed uses from traditional and new agricultural commodities. What has CSRS been doing to implement and/or encourage Subtitle G?

Answer: Since the early 1980's, CSRS has actively participated in many activities to create a positive climate for advancing research discoveries to the marketplace.

Typical activities have included leadership in the New Farm and Forest Products Task Force and its 1987 report to the Secretary titled, "Responses to the Challenges and Opportunities Facing American Agriculture," commercialization programs for guayule --natural rubber--, industrial rapeseed and crambe --high erucic acid--, and kenaf --newsprint--, information and education regarding the commercialization process to government, academia and industry and, upon request, to interested members of Congress, and co-chairing the Secretary's Working Group on Commercialization

leading to the February 22, 1991 Departmental Regulation 9600-2, "Industrial Products from Agricultural Materials."

In terms of implementing Subtitle G, CSRS plans to continue and expand many of the research, development, and commercialization activities already in place. A conference reception for new and alternative uses will be held at the USDA patio on March 21, 1991. This reception, requested by former Secretary Clayton Yeutter, will showcase new uses development by businesses, government, and academia, and plans to feature a session hosted by newly confirmed Secretary Edward Madigan on the importance and opportunities for industrial materials.

ALTERNATE FUELS

Question: As a follow up, the recent Middle East war again focused interest on alternate fuels. Significant ethanol capacity is in place as a result of research in the 1970's. But, most of the essential transportation moves by diesel power. What work has been done to provide a reliable source of domestically-produced renewable substitutes for #2 diesel fuel?

Answer: Research effort during the late 1970's and 1980's was directed towards the extraction and utilization of unprocessed vegetable oil fuels to replace and/or blend with #2 diesel fuel. Although these fuels may be used as a substitute, research indicated major problems of severe engine deposits, ring sticking, injector coking, and increased viscosity of engine lubricating oil will occur for other than short periods of operation. Therefore, the use of unprocessed vegetable oils as a dependable supply for diesel on a long-term basis has not become feasible.

Recent technical developments in the transesterification -- chemical modification with alcohol-- of the unprocessed oils has resulted in fuels --primarily methyl esters-- with chemical and physical properties that have significantly reduced problems encountered with unprocessed oils.

Several oilseeds--rapeseed, crambe, sunflower, and soybeans--as well as animal tallow could be used as feedstocks to make methyl esters. However, there are several important concerns that must be addressed before commercialization. These include: long-term engine testing to verify performance and durability and determine static and transient emissions; increase production yields and oil content; development of high quality animal feed and glycerol coproducts; development of ethyl esters using ethanol; and assessment of the potential feedstock production system on rural economies and farm program costs.

REGIONAL RESEARCH PROGRAM

Question: We will have a large number of acres coming out of the CRP in the near future. The last farm bill contained a request to the USDA to prepare a study on what might happen to this land after CRP. I understand that within the CSRS system there is something called regional research projects where scientists from several Land-grant universities join together for a joint research effort.

I think it might be helpful if university researchers participated with USDA researchers in preparing this report on future use of CRP land that Congress has requested. Would it be possible for university researchers to develop a regional research project for this purpose and perhaps for the Congress to provide special research grant support to facilitate development of a joint research effort between universities and the USDA?

Answer: The Hatch Act Regional Research program is a well established and important part of Cooperative State Research Service/USDA research funding to State Agricultural Experiment Stations. It provides the ideal mechanism for State and USDA scientists to work cooperatively on issues that are regional and national in scope.

Cooperative regional projects are developed as recommendations from scientists and administrators. Once a project has been approved by the regional Directors Association it is recommended to the Committee of Nine. The Hatch Act established the Committee of Nine, elected by and representing experiment station directors, to review and recommend approval of regional research projects. If the States are interested in a specific regional project on CRP they could develop a regional research proposal for consideration by the research directors and Committee of Nine.

Although no current Regional Research project is specifically directed toward the future use of Conservation Reserve --CRP-- lands, portions of some regional projects do address the issue. For example, regional project NC-174 entitled, "Soil Productivity and Erosion" is being used in South Dakota to address the impact of grass cover of CRP lands upon soil productivity and water quality. Conservation tillage systems applied to CRP lands being returned to production are included in the study. The University of Missouri is a North Central Region participant in the NC-174 project.

The Great Plains Agricultural Council has established a Task Force to study issues related to the use of CRP lands upon the expiration of the program contract. Several agencies, including CSRS and SCS, are cooperating on this project.

Issues the Task Force are addressing include:

1. What is the expected condition of the grass stands on CRP lands at the expiration of the contract?

2. What criteria should be applied toward deciding which lands should remain in grass and which lands should be returned to cultivation?

3. What are the expected economic impacts upon expiration of the CRP contracts?

The Regional Research program, coordinated by CSRS and the State Agricultural Experiment Stations, provides an excellent mechanism for investigating regional problems. The Task Force on CRP Lands will provide a focus for state and federal agencies to examine critical issues regarding the future of CRP lands. A national survey being conducted by the Soil and Water Conservation

Society on CRP lands is expected to be released within a month. The survey will be useful in providing current information for all agencies.

CHALLENGE GRANTS

Question: In addition to the National Needs Fellowships, what progress is being made in funding institution challenge grants which I understand could assist in strengthening undergraduate program efforts.

Answer: The university community has been very interested in and enthusiastic about the Higher Education Challenge Grants Program ever since it was launched in FY 1990. In the first year universities submitted 228 proposals addressing the areas of curriculum design and materials development, faculty preparation and enhancement, innovative instruction delivery systems, and student experiential learning opportunities. To most effectively utilize the $957,000 available in FY 1990, a highly selective process was used to fund only the very best 29 projects submitted. The Challenge Grants Program requires dollar-for-dollar matching funds from non-federal sources and generates sorely needed resources to revitalize the educational programs which are primarily responsible for the development of future generations of food and agricultural scientific and professional expertise. The projects supported with FY 1990 funds represent an exciting array of initiatives. Several of the projects are developing and delivering courses in areas such as animal genetics and food science via AG*SAT, the national satellite network developed by a consortium of 32 land-grant universities. Three other projects are to develop a joint degree in agribusiness between a College of Agriculture and a School of Business; to enhance faculty skills needed to interact with a culturally diverse student population; and to provide student experiential learning opportunities through partnerships between 1862 and 1890 land-grant institutions. This program holds great potential for ameliorating national problems which are enervating the food and agricultural sciences higher education system.

NATIONAL RESEARCH INITIATIVE

Question: The National Research Initiative strikes me as a key means of focusing competitive grant funds on important food and agricultural research needs. Could you please give me a review of:

a. How program targets and funding targets are set.

b. How guidelines for the grants are developed after the target program areas have been identified.

Answer: To assure that each research unit in the U.S. Department of Agriculture has an input into the National Research Initiative --NRI-- the Assistant Secretary for Science and Education first set up a Board of Directors which he chairs to set policies for the NRI and review all program targets and funding targets. In order to gain as much input from the users and performers of agriculture, food and related environmental research, the Assistant Secretary for Science and Education asked an informal

group of users to meet with him to discuss the NRI. This informal group helped organize a series of user workshops, representing a variety of commodity, farm, business and environmental groups. These workshops had the purpose of obtaining input directly from users on research needs as they relate to the initial year of funding and proposed future funding. User workshop results were provided to Science Planning Committees. Science Planning Committees were made up of scientists from universities and Federal laboratories and were to consider broad input from both the user and science communities. These committees represented the four areas of the NRI that were funded in fiscal year 1991 and were charged to translate user statements and science opportunities from their own perspectives into recommendations and priorities that were given to the Chief Scientist of the NRI for development of specific requests for proposals --RFPs-- in each funded program area of the NRI. The RFP's were then reviewed by the Board of Directors.

BENNETT LIVING AND LEARNING CENTER

Question: Last year you were charged to study the Bennett Living and Learning Center at Lincoln University of Missouri. Would you please tell us briefly what your conclusion of that study was?

Answer: The conclusion of the site visit team was that the Bennett Land-Grant Living and Learning Center has the potential to create an innovative educational model of national significance; address the need for ethnic and cultural diversity in the Nation's higher education system and the U.S. workforce; establish a coordinated approach to improve recruitment, learning opportunities, job placement and follow-up; and enhance the visibility and prominence of agricultural education nationwide. To reach its potential, however, the team recognized that the Center will need a long-term, increasing financial commitment from the State to support the program as it evolves and grows.

Question: You have stated one of your goals for the 1890 institution is to attract, train and graduate high quality individuals in the agriculture related sciences. How does the Bennett Center fit into this goal?

Answer: During the past three years recruitment and retention efforts at Lincoln University have resulted in a doubled enrollment in agriculture and natural resources. The school expects these numbers to double again by 1992. While Lincoln has a viable program in place, it has been unable to reach its potential due to scattered staff and increasingly limited space.

The Bennett Center could provide a place to house the institution's recruitment, retention, and placement programs and also provide students with more and better "hands on" agriculture-related activity that supports the curriculum being taught. In addition, it will offer a better opportunity for USDA to interact with agriculture students and will provide a forum to implement joint Lincoln/USDA pre-college programs for students from grades K-12. Current plans include one-day activities for elementary

students, rural and urban camp programs for middle school students, and extensive on-campus summer programs for high school students.

Question: Where do you rank this on your 1890 priority list?

Answer: CSRS has not developed formal rankings for its projects involving the 1890 institutions. However, the Department has given a high priority to increasing its support of the 1890 institutions as can be seen in the establishment of a joint USDA/1890 Task Force, development of new educational initiatives such as the 1890 Institutions Capacity Building Grants Program, and the assignment of USDA liaison officers on the campus of each 1890 institution.

FUTURE AVAILABILITY OF EDUCATED PERSONNEL FOR THE FOOD AND AGRICULTURE SYSTEM

Question: One of my special concerns has been the future availability of educated personnel (B.S., M.S., PH. D. level) to work in the food and agriculture system. Might you review for me how you are assisting in developing these human resources at the (a) B.S. level in 1862 and 1890 institutions, and (b) at the M.S. and Ph.D. levels.

Answer: We concur with your concerns regarding current and future shortages of scientific and professional personnel available for the food and agriculture system. In fact, the 1991 USDA report, Employment Opportunities for College Graduates in the Food and Agricultural Sciences projects an 11 percent shortage overall to the mid 1990's with marketing, merchandising and technical sales positions to experience an 18 percent shortage and scientists, engineers and other related specialist positions to experience a 15 percent shortage. All three USDA Higher Education Programs are designed to help ameliorate this national problem. The National Needs Graduate Fellowships Program stimulates the development of scientists and professionals in areas of national need by attracting outstanding students from such fields as chemistry, genetics, or molecular biology, as well as from the food and agricultural disciplines, to engage in graduate study in the agricultural and food sciences. The Institution Challenge Grants Program's goals are to improve the quality of education, to foster university partnerships with industry and among colleges and universities, and to stimulate non-Federal support for higher education. Such efforts will improve the quality and numbers of agricultural and food specialists. The 1890 Institution Capacity Building Grants Program advances university teaching and research capabilities at the 1890 Land-Grant Universities and Tuskegee University, fosters partnerships with industry and with other institutions of higher learning, ties the institutions closer to activities in USDA, and stimulates non-Federal support for higher education, all activities that develop human resources. The Graduate Fellowships and Challenge Grants Programs are designed to rectify shortages of graduate-trained personnel. Both the Challenge Grants and Capacity Building Grants Programs help solve problems with shortages at the baccalaureate level.

SAFETY OF FOOD SUPPLY

Question: The public is insisting on reassurance that our food supply is safe. What program efforts and special initiatives do you have underway to address these concerns?

Answer: Safety of food products is of paramount importance to the producer, processor, distributor, and consumer. In 1991, $4 million is appropriated for research on nutrition, food quality, and health, including food safety, under the National Research Initiative Competitive Grants program. The primary objective of the food safety component of the program area is to increase our understanding of the disease-causing bacteria which contaminate food with the goal of decreasing food-borne illnesses. Proposals for 1991 have been solicited for research on the mechanisms of pathogenesis, prevention and control of food-borne disease-causing bacteria, especially those growing at refrigeration temperatures. The 1992 budget proposes increasing the nutrition, food quality, and health area to $13 million.

Scientists are developing a program of research on naturally occurring toxins in the food supply. This program will ultimately involve scientists from many universities working on detection methods, interdiction points, and processes to remove these hazards from the food supply.

Social scientists at a number of universities have been developing methodologies to address risk assessment problems and assess consumer willingness to pay for safer foods under a Hatch Act regional research project. These studies were summarized at a workshop last year and results are forthcoming in a publication to be released this year. This team is continuing to explore various demographic and economic issues pertaining to food safety.

A new regional research project is being developed to assess foreign food safety and quality technical standards, their justification, and suitability of compliance methods. This study will allow a comparison to be made of the standards imposed by various countries with the United States and explore means to reduce the cost of compliance. This project will be an interdisciplinary effort involving biological and social scientists. The study will commence upon approval of the project proposal.

It has been recognized that close coordination is needed between the research and food safety regulatory agencies within and outside the Department. Coordination is needed to communicate the priority food safety research needs of the regulatory agencies to the research community and expedite the research results back to the regulatory agencies and affected industries. Three agencies, the Food Safety Inspection Service, Cooperative State Research Service, and Agricultural Research Service are implementing this coordination effort. This effort will be expanded to include other regulatory and research agencies in and outside of the Department.

A CSRS Special Research Grant for the Animal Science Food Safety Consortium has been supporting an interdisciplinary effort involving scientists from the University of Arkansas, the

University of Arkansas Medical School, Kansas State University, and Iowa State University. Considerable progress has been made on the development of fast detection methods for pathogens and toxic substances in meat animals and products. Current research is focusing on identifying cost effective interdiction points to reduce sources of contaminates. The strategic plan guiding this program also calls for development of a reliable statistical method to estimate the presence of hazards and the conducting of risk assessment studies to estimate the absolute importance of various hazards.

SOYBEAN CYST NEMATODE

Question: How is research on the soybean cyst nematode going and has there been any breakthrough on any new resistant varieties? Is there currently any other research on-going outside of the University of Missouri Delta Center?

Answer: The University of Missouri research team continues to make good progress in the identification and testing of soybean germplasm having superior resistance to the cyst nematode. It was found that soil acidity affects the survival of cyst nematodes on the roots of soybeans, and degree of survival was also influenced by the type of soybean cultivar grown under different levels of soil acidity. In a major accomplishment, University of Missouri scientists have developed and released a new soybean strain resistant to all races of the soybean cyst nematode. This research has been supported with funds from CSRS. Outside of Missouri, in all major soybean-producing states, agricultural experiment station scientists are conducting research on various aspects of the soybean cyst nematode problem. In addition, the Agricultural Research Service is working on this nematode problem at several locations.

WATER QUALITY

Question: Water quality is a key national concern. What are you doing in coordinated research, extension, and other agency efforts to address this area?

Answer: The USDA Working Group on Water Quality is providing excellent coordination of research, extension, and other efforts relating to water quality. The CSRS water quality program is being conducted in coordination with the USDA Working Group on Water Quality, and its cooperating agencies in USDA and other Departments.

In response to the 1990 President's Initiative on Water Quality, CSRS and Cooperating State Institutions have initiated two coordinated programs. The first, the CSRS National Components Special Research Grants Program in Water Quality supports collaborative research by Cooperating Institutions, with other universities, state and federal agencies, nonprofit organizations, and their scientists as cooperators.

The second CSRS program under the President's Initiative on Water Quality is the Geographic Systems research program, under which five Management Systems Evaluation Areas ---MSEA-- have been

initiated as part of the Midwest Initiative on Water Quality. These MSEA sites are located in Iowa, Minnesota, Missouri, Nebraska, and Ohio, with collaborative research being conducted in Kansas, Michigan, North Dakota, South Dakota, and Wisconsin. The MSEA program will evaluate the impacts of current and developing farming systems and practices on water quality. The Midwest Initiative program was jointly planned and initiated by the Cooperative State Research Service, the State Agricultural Experiment Stations, and the Agricultural Research Service, and is being implemented in cooperation with the Extension Service, Soil Conservation Service, U.S. Geological Survey, Environmental Protection Agency, and other federal and state agencies. MSEA sites represent significant acreages of corn and soybeans which receive heavy annual applications of pesticides and nutrients.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

EASTERN FILBERT BLIGHT

Question: As you know, Eastern Filbert Blight continues its slow but relentless advance into the major hazelnut production areas of the Northwest. Much has been accomplished since the USDA began its research activities in 1987, but we must accomplish a great deal more before the situation will no longer pose a threat to this $45 million industry in Oregon alone. Can you briefly tell the Committee about what developments have been made in this research area and what progress you hope to make in the next year.

Answer: University scientists in Oregon have learned in detail the biology of the pathogenic fungus that causes eastern filbert blight. In addition, resistance has been identified in several European hazelnut cultivars. Genetic crosses have been made to try to incorporate this resistance into more acceptable cultivars. Studies on the biology of the plant-fungus interactions have also yielded much information on chemical and cultural control practices that will greatly slow the spread of the disease in existing susceptible plantings. Future research supported by the Department of Agriculture will focus on incorporating what is known about the disease and the pathogenic fungus into an integrated disease management strategy. This strategy will combine resistant cultivars, fungicides, and cultural practices to minimize the pathogen's spread.

McINTIRE-STENNIS COOPERATIVE FORESTRY PROGRAM

Question: At no time in recent history has the need for a viable and vigorous forestry research program been more apparent. The current timber supply situation and associated human issues in the Northwest, a growing demand for improving environmental protection, continued need for forest products to satisfy domestic needs and to respond to international opportunities, all point to the need for a strong McIntire-Stennis research program. Unlike some other programs, McIntire-Stennis has not received appropriate annual increases to offset inflation.

With Wood products as a major industry in Oregon, and with the growing environmental concern limiting wood supply, I am greatly concerned with the Department's treatment of the McIntire-Stennis program, a program that produces research vital to both industry and environmental concerns. The President's FY 1992 budget proposal contains only $12.975 million for McIntire-Stennis, a reduction of approximately 30% from current funding levels. Clearly, at no point since the inception of the program has the research produced through McIntire-Stennis been of greater value. I am curious to know if CSRS and the Department recommended higher funding for this program, and if so, what was the suggested amount.

Answer: The fiscal year 1992 CSRS request to the Department was $19,106,000 and the Department's request to OMB was $18,371,000 for the McIntire-Stennis Cooperative Forestry program.

QUESTION SUBMITTED BY SENATOR LUGAR

INDIRECT COSTS

Question: What is the effect of the cap on indirect costs on the Federal research program and the impact of the cap on the ability for states to do local research?

Answer: Administrators in universities are concerned about the difference between audited indirect costs versus the mandated cap on the indirect costs. We understand that in some cases colleges --e.g. agriculture, experiment station and academic departments-- may be required to make up the difference out of internal budgets if their faculty are successful competitors for grants.

If, in fact, colleges of agriculture, experiment stations and/or their departments are required to pay the university the balance of the audited overhead costs above the 14 percent cap, this most likely will have to come from research budgets, the funds of which would not be available for some other part of the State's research agenda. A difficult choice may have to be made between accepting a highly sought after competitive grant or maintaining full support for other projects.

QUESTIONS SUBMITTED BY SENATOR SIMPSON

ENVIRONMENTAL SIMULATION FACILITY
(ESF)
University of Wyoming

Question: Is the proposed Environmental Simulation Facility (ESF) unique and are there other facilities like it in the United States?

Answer: The Cooperative State Research Service Site Review Team determined that the proposed Environmental Simulation Facility

at the University of Wyoming is unique from any other existing or planned facilities in the United States because it will house large environmental simulation chambers with computer-controlled climatic conditions, and "basement" lysimeters to create surface and subsurface conditions on a scale representative of natural and man-made deposits of minerals and soils for studying surface and ground water contamination prevention and remediation.

Question: Was the need for the existing prototype environmental simulation laboratory at the University of Wyoming reviewed by the scientific community before it was constructed and has the need for the proposed ESF been reviewed by federal agencies other than USDA, and by the scientific community?

Answer: Several teams of scientists with expertise in environmental simulation, biological and agricultural sciences, and engineering reviewed both the current Environmental Simulation Laboratory and the proposed ESF during their planning and during the operation of the existing laboratory. Site Review Teams that recently reviewed the current laboratory facility and prepared reports on the need for the proposed ESF were composed of scientists from universities, state agricultural experiment stations, the National Aeronautics and Space Administration, and the Environmental Protection Agency, as well as from USDA research agencies.

Question: Why is the Environmental Simulation Facility needed?

Answer: The University has indicated that the Environmental Simulation Facility is needed to address major issues on the development of critical methodologies for surface and ground water pollution abatement.

Question: Why is the Environmental Simulation Facility concept unique?

Answer: The proposed Environmental Simulation Facility is planned as part of a national center for research and technology on surface and ground water protection and cleanup. Programs to be housed in the planned facility will be based on the use of simulated environments, with large soil-filled lysimeters, to create surface and subsurface conditions on a scale larger and more representative than laboratory bench-scale studies, yet permitting rapid development and pilot scale testing of water quality technologies in a safe, contained ecosystem.

Question: What research programs will the ESF be used for after it is constructed?

Answer: The University proposes that three general areas of science will be researched in the new facility, in studying, evaluating, and developing ground water protection and cleanup: biology, particularly microbiology and molecular biology; environmental sciences, particularly geotechnical engineering; and ecology, to provide a unified approach by integrating the physical, chemical, and biological aspects of each ecosystem constructed in the ESF.

Question: Why is this facility needed by agriculture in Wyoming? In the Nation?

Answer: An adequate supply of high-quality water is a critical need for agriculture, as well as domestic purposes, for both Wyoming and the United States. The proposed Environmental Simulation Facility could provide large-scale environmentally-controlled chambers to simulate the out-of-doors to safely and economically develop and evaluate new water pollution abatement technologies, including the application of biotechnological techniques.

Question: How can the Environmental Simulation Facility contribute to the effectiveness of agricultural research? teaching?

Answer: The Environmental Simulation Facility will permit effective, controlled-environment research on surface and ground water protection and cleanup. By providing carefully-controlled climatic and surface/ground water conditions, research can be conducted on more representative scales than with laboratory conditions, to develop and evaluate new instrumentation and techniques for water pollution control important to agriculture. In addition, the proposed facility is expected to attract students and scientists from various disciplines at the University of Wyoming and elsewhere to benefit from the teaching and collaborative research by the staff, scientists, and faculty associated with the facility and center.

Question: Are there any possible alternatives to the proposed Environmental Simulation Facility that would provide the same benefits? If so, what are they? Has anyone made an effort to evaluate possible alternatives?

Answer: The Cooperative State Research Service Site Review Team investigated and considered other possible alternatives to the proposed facility, and did not identify other viable options. Since studies of water quality protection and cleanup under controlled environment conditions require specialized facilities, continued use of the present single-unit prototype unit limits such possibilities. A scaled-down version of the current plan was also considered but would offer less programmatic flexibility than the proposed six-chamber facility. An outdoor lysimeter facility has been constructed near the University of Wyoming for such environmental studies, but an enclosed, indoor facility is required to conduct such research under completely controlled environmental conditions.

Question: What commitment has the University of Wyoming made to the proposed facility and to the programs it is intended to house? the State?

Answer: The University of Wyoming and the Governor of Wyoming have given commitment to the proposed facility and projects.

Question: Where will the matching funds come from?

Answer: The University of Wyoming indicated its understanding of the requirement of non-federal matching funds, and intends to proceed to obtain these during the development of the facility. Governor Sullivan indicated in writing that he will move toward introducing legislation to fund the institution's cost sharing obligation, if efforts to secure the Federal match are successful.

Question: Is the intended use of the facility within the mission of USDA?

Answer: Yes, the proposed facility appears to be within the mission of USDA.

EXTENSION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

YOUTH AT RISK

Question. I have heard good things about your Youth At Risk program and commend you for your efforts in this regard. I understand that you plan to spread the money for this year among 50 different communities. What is the amount of private contributions you have received to match the initial $7.5 million made available for this year?

Answer. The States have indicated a match of $8.2 million for projects funded in 1991. We have conservatively identified $480 thousand of that amount as private sector match; examples are local civic organizations, not-for-profit community organizations, volunteers, and some user fees.

Another very large private sector match to the program is the $5.9 million provided by the W. K. Kellogg Foundation. These funds have already established six Centers for Action, two each in each of the focus areas of School Age Child Care Education, Coalitions for High Risk Youth and Reading and Science Literacy. The funded projects can call on these additional resources for technical assistance and training.

The National 4-H Council, in partnership with ES-USDA, has initiated discussions with additional private sector donor/investors. There is a combined commitment of $6.1 million from the W. K. Kellogg Foundation; Pioneer Hybrid International, Inc.; Mr. and Mrs. Ed Aiton; ARCO Foundation Inc.; The UPS Foundation; and, The Hershey Foods Corporation Fund.

Question. Are applicants required to provide matching funds in addition to these contributions? In what amount?

Answer. The actual requirement was for each project to be matched. The Extension System in each State has responded by redirecting resources to support the youth at risk initiative. The $7.5 million was matched directly through the State and local Extension System and the local collaborations for a total of $8.2 million.

Question. Have you limited the size of grants for individual applications?

Answer. Yes, we established a range of $50,000 to $150,000 that could be requested from the $7.5 million. The requirement to match the Federal portion resulted in a project size from $100,000 to $300,000. This range allowed the communities to tailor a project to meet their needs and specify what they were willing to commit.

Question. Are you proposing any type of geographical distribution for these grants?

Answer. Each application for funding was carefully reviewed and rated for its merit to insure funding for projects that had the greatest potential for success. We did not impose a geographical distribution system.

Question. How many requests, and in what amount, have you had for these funds?

Answer. We had 119 applications totalling approximately $14 million from 48 States and two Territories.

Question. What are the prospects for obtaining matching funds for $15 million proposed in 1992?

Answer. Considering the very positive response in 1991, we believe more communities will develop proposals with the local Extension Service. This will generate additional matching and provide an opportunity for local communities to bring their resources together collaboratively for a synergistic result.

INDIAN RESERVATION AGENTS

Question. For this year $1,000,000 was appropriated for Indian Reservation Agents. What is the agency doing with these funds? How many reservations will you reach, and how many agents will be provided?

Answer. The Extension Service has received proposals from the States for this program. Discussions have been held with the Indian community and the proposals are currently being reviewed by a selection panel. Funding for successful projects will be awarded soon. Approximately 14 or 15 reservations will be reached with this program with about 15 agents. In addition to the approximate 15 agents supported by Federal funds, the proposals indicate that about 3 additional agent positions will be supported by State funds on reservations.

Question. You do not request any funding to continue this program. What is the need for additional extension agents on Indian reservations?

Answer. A survey of States indicates an interest in Extension presence on Reservations. The approximate 15 agents to be funded in 1991 will address some needs on reservations. States will have the option to direct Smith-Lever 3d funds to meet additional needs which they identify as high priorities.

Question. How many requests, and in what amount, have you had for these funds?

Answer. Fifty-four proposals totalling $2.7 million were received for the 1991 funding.

Question. How many extension agents would be placed on Indian reservations with your proposed increase in Smith-Lever formula funds?

Answer. The use of Smith-Lever formula funds is determined by each State in support of the total Extension program. States could and some may choose to direct formula increases to Reservation programs.

EFNEP

Question. Your explanatory notes for the Expanded Food and Nutrition Education Program are confusing. You praise the program and note that it has demonstrated positive outcomes and has assisted low-income families in improving the total family diet and their nutritional wellness. However, you request a decrease of $1,890,000 in this $60.5 million program while at the same time maintaining that you will increase the frequency of teaching the population in need. How will you accomplish increased work with less money?

Answer. The frequency of teaching will be increased to bimonthly or weekly rather than monthly sessions. This helps to maintain a high level of involvement in the program and increase motivation. We are also increasing our collaborations with other community organizations who are reaching the same audience. Through this increased collaboration, we are obtaining referrals or assistance in forming groups of individuals to receive the educational program. This reduces our time spent recruiting new clientele.

Question. How do you specifically justify the decrease of almost $2,000,000?

Answer. The funding request is approximately the same as the appropriation that EFNEP has received for several years. The current appropriation of $60.5 million is, in reality, a restoration of previous Gramm-Rudman reductions. At the time that the budget figures were being put together, a $58 million appropriation was a consistent funding level, reflecting the Administration's support for the program.

DISADVANTAGED FARMER ASSISTANCE GRANTS

Question. The FACT act changed the authorization for the disadvantaged farmer assistance grants. Have the grants for 1991 been made subject to the new authorization, or have they been made under the same criteria as in previous years?

Answer. The FY 1991 grants have been made subject to the new authorization, with stipulations contained in the fiscal year 1991 Appropriations and Conference Committee Reports.

SUSTAINABLE AGRICULTURE

Question. What amount of Extension funding, including the sources, is going toward sustainable agriculture work?

Answer. Recent surveys indicate a redirection of at least 6 percent of State Extension budgets is going toward sustainable agricultural type activities. Extension has been working very closely with CSRS in the Low Input Sustainable Agriculture (LISA) program and has received support for projects. A majority of the LISA projects have an outreach activity. Many of these activities are with private, non-profit organizations, as well as, with the State Extension Services.

Total support from LISA is about $200,000 per year within CSRS. There is no direct support in the Extension Service budget.

Question. What is your view of the FACT Act provision authorizing training for Extension agents in Sustainable Agriculture?

Answer. Agents and specialists need training in the sustainable area, and reports show 35 states have some activities taking place. They are very diverse in subject coverage and depth of information presented. Because sustainability is so site specific, training would best be accomplished in the state or region in which the agent is assigned.

Question. Are Extension agents currently able to provide advice and resource information on Sustainable Agriculture to fulfill the need?

Answer. For the most part yes. However, additional training and experience will be required.

Question. Do you see a role for Extension agents in promoting as opposed to providing information on Sustainable Agriculture?

Answer. No, the role is not to promote. As in other fields of Extension, the appropriate role is to provide research-based information.

Question. Is information generated by new research on Sustainable Agriculture being transferred to producers in a useful manner?

Answer. There is always need for better communication between many of the researchers and agents, and for that matter between researcher and researcher. Universities which have any type of sustainable research work going on will generally try to help producers observe the

difference between a conventional and sustainable system. From the beginning, the regional LISA councils have required an outreach activity to be a part of their projects.

Producer involvement in the planning phase of the LISA projects has helped tremendously in getting the word out. Farmer-to-farmer experience is one of the strengths of the outreach tools used by LISA projects.

HOME SEWING

Question. How much money have you made available to the home sewing project in Mississippi?

Answer. Since 1987, Extension Service has contributed approximately $100,000 to this project in Mississippi.

Question. How much have you made available for the project in South Carolina and Alabama?

Answer. In 1990, $41,500 was made available to South Carolina and recently, $15,000 was provided to Alabama for a Home Sewing project.

Question. What is the source of the funding?

Answer. The Extension Service has made these funds available from the general operating funds of the Agency.

FEDERAL ADMINISTRATION

Question. I note that for each of the sources of funding within the Extension Service, a portion is used for Federal administration. Yet, there is a separate appropriation requested for Federal Administration. Please explain how other Federal administration amounts are derived, and why there is a separate account for Federal Administration funds in addition to a portion of every other account.

Answer. The administrative funds shown in the budget as derived from the major line items are legislated, program set-asides for the conduct of Extension Service programs. The Smith-Lever Act and the various Farm Bills over the years have authorized set amounts, based on a percentage of appropriated dollars, for administration and general operating funds to allow the Extension Service to perform its functions and responsibilities.

The direct line Federal administration account was established in the early 1960's when it was determined by Congress that the Federal office was not receiving adequate funding to continue as a viable national Extension partner from the increases being provided to the States for

Extension programs. This line item has continued to be used for the support of the national Extension staff. The amount available has barely doubled in the last 30 years and currently provides only 35% of the funds required to operate the Federal office.

Question. For the special grants funded in 1991 under Federal administration, please give a summary of each project and the Extension Service's involvement in it. Include the justification for the project, the expected longevity of the project, and the prospect for continuation without federal funding.

Answer. The Special projects funded under Federal Administration are the direct result of Congressional intent and are funded on an annual basis. Some of these projects have been funded for several years by the Congress. The results learned from them have been sufficiently integrated into ongoing programs or have generated additional resources from other than Federal funds to continue the expressed focus of the projects. Additionally, a number of these concerns are being addressed under other initiatives within the Cooperative Extension System. The 1992 Budget proposes to eliminate earmarked Federal funding support for these projects. [The information follows:]

PROJECT	YEAR FIRST FUNDED	TOTAL FUNDING TO DATE	FY 1991 FUNDING
Technology Transfer (OK/MS)	1983	$2,975,000	$331,000
Main Street (NE)	1985	1,343,000	194,000
Rural Enterprises (OK)	1987	2,060,000	431,000
Crambe/Rapeseed (NE)	1988	261,000	67,000
American Pacific (HI)	1988	2,592,000	647,000
New England Vertebrate (MA)	1988	307,000	103,000
Rural Rehabilitation (GA)	1989	641,000	256,000
Project Future (MN)	1989	355,000	143,000
Agricultural Film (NY)	1989	524,000	175,000
Rural Education (ND)	1989	2,546,000	846,000
Presque Island (ME)	1990	278,000	139,000
Crop Simulation (MS)	1990	994,000	498,000
S. Kentucky Ag. Dev. (KY)	1991	49,000	49,000
Income Enhancement Dem. (OH)	1991	145,000	145,000
TOTAL		15,070,000	4,024,000

QUESTIONS SUBMITTED BY SENATOR BUMPERS

EXTENSION PROJECTS IN ARKANSAS

Question. The FY 1991 appropriations bill included two specific provisions related to Extension Service projects in Arkansas. One, the Small Farms Experiment Station at Booneville, received $79,397 in FY 1990 of which $14,000 was carried over into the current fiscal year. That amount is now exhausted. The second provision calls for the implementation of a beef production improvement program. Because these programs are of special interest to me, please share with me the steps you intend to take to implement these programs through the use of Smith-Lever funds and please provide a written response to this inquiry prior to subcommittee markup for the FY 1992 Agriculture Appropriations bill. Recognize that the Small Farms Experiment Station was not subject to recommended reductions in funding by the administration and that it should clearly continue as an existing program. The work at the Booneville station has been successful in the development and dissemination of valuable information and I am seriously distressed at the seeming reluctance on the part of the Extension Service, at the National level, to continue these important efforts.

Answer. In concert with the intent of Congress as expressed in the accompanying report language for the FY 1991 appropriations, the University of Arkansas Cooperative Extension Service is addressing these projects from base funds. The FY 1991 increase for Smith-Lever formula funds provides Arkansas with an additional $183,000 for Extension programs. They will need to determine the use of the increased allocation. However, we are working with the State to try to insure that objectives of the two specific provisions are addressed. At this time there are no additional funds provided to Extension Service for these projects.

Question. In addition, I would like you to provide me information related to the manner in which you plan to distribute the increased Smith-Lever funding to the States for FY 1991. Overall, I want to impress on you my historic support for Extension programs on the national level. I would like for my strong support to continue. However, I must receive assurances from you that your efforts will be in good faith to implement the intent of Congress through the programs included in appropriations report language.

Answer. The increased Smith-Lever formula funding is being distributed in FY 1991 under the legislated formula as enacted. [The information follows].

TABLE I
APPROPRIATION FOR PAYMENTS TO STATES
STATE ALLOTMENTS, FY 1990 - 1992

Smith-Lever Act: Section 3(b) & 3(c)	FY-1990	FY-1991	Proposed FY-1992
Alabama	$ 5,244,834	$ 5,443,346	$ 5,625,649
Alaska	754,061	799,428	841,088
American Samoa	643,477	680,721	714,921
Arizona	1,330,593	1,404,368	1,472,122
Arkansas	4,403,831	4,586,951	4,755,121
California	5,311,863	5,605,236	5,874,837
Colorado	2,088,183	2,201,630	2,305,814
Connecticut	1,573,019	1,656,570	1,733,303
Delaware	891,521	945,530	995,126
Florida	3,077,933	3,254,619	3,416,875
Georgia	5,836,835	6,091,201	6,324,799
Guam	677,932	717,671	754,168
Hawaii	956,394	1,003,494	1,046,749
Idaho	1,877,112	1,969,333	2,052,388
Illinois	6,982,259	7,362,278	7,711,270
Indiana	6,268,916	6,626,117	6,954,151
Iowa	6,651,022	7,039,174	7,395,827
Kansas	3,901,435	4,109,446	4,300,473
Kentucky	6,662,435	6,986,661	7,284,415
Louisiana	3,903,734	4,066,549	4,216,067
Maine	1,574,158	1,657,932	1,734,865
Maryland	2,391,302	2,512,433	2,623,670
Massachusetts	1,968,994	2,071,949	2,166,499
Michigan	6,361,272	6,698,083	7,007,389
Micronesia	695,173	738,258	777,821
Minnesota	6,239,419	6,584,028	6,900,501
Mississippi	5,458,945	5,640,450	5,807,130
Missouri	6,177,277	6,512,657	6,820,653
Montana	1,760,952	1,861,479	1,953,798
Nebraska	3,525,202	3,723,430	3,905,468
Nevada	761,248	808,240	851,391
New Hampshire	1,114,556	1,183,387	1,246,594
New Jersey	1,936,589	2,038,037	2,131,201
New Mexico	1,433,409	1,506,613	1,573,835
New York	6,000,506	6,298,456	6,572,072
North Carolina	8,817,230	9,184,383	9,521,558
North Dakota	2,445,962	2,576,017	2,695,455
Ohio	7,677,044	8,090,707	8,470,596
Oklahoma	3,952,012	4,143,089	4,318,568
Oregon	2,480,371	2,625,637	2,759,037
Pennsylvania	7,505,264	7,889,349	8,242,072
Puerto Rico	5,603,199	5,737,543	5,860,920
Rhode Island	756,997	801,255	841,900
South Carolina	4,302,384	4,468,890	4,621,797
South Dakota	2,525,791	2,664,456	2,791,801
Tennessee	6,422,424	6,699,599	6,954,136
Texas	8,899,685	9,312,589	9,691,775
Utah	1,167,310	1,230,503	1,288,537
Vermont	1,244,456	1,314,672	1,379,151
Virgin Islands	659,504	698,860	735,005
Virginia	5,325,912	5,559,244	5,773,526
Washington	2,939,150	3,103,297	3,254,039
West Virginia	3,100,987	3,237,783	3,363,410
Wisconsin	6,234,753	6,578,285	6,893,771
Wyoming	1,052,202	1,112,656	1,168,175
No. Mariana Islands	623,383	660,202	694,012
Sub-total	$200,172,211	$210,094,771	$219,207,091
3(b) Special Needs	1,544,909	1,544,909	1,544,909
3(c) Fed'l Admin.	5,849,880	6,263,320	6,643,000
Total	$207,567,000	$217,903,000	$227,395,000

QUESTION SUBMITTED BY SENATOR KERREY

RURAL DEVELOPMENT

Question. Section 2389 of the 1990 farm bill made certain changes in the Extension Service's "Section 1440" rural development program. Among those changes is the requirement that not less than 50 percent of the grant funds received by a state be used to provide clinical outreach counseling and crisis management assistance, including mental health services.

Apparently some disagreement exists regarding the impact of the farm bill amendments on the use of "Section 1440" funds in FY 1991 and subsequent years.

Please provide the Department's interpretation with respect to the impact of Section 2389 of the 1990 farm bill on the use of "Section 1440" funds, including copies of any directives or interpretations on this matter that ES-Washington has sent to Extension directors in affected states.

Answer. The Section states that, "The eight States receiving grants under section 502(f) of the Rural Development Act of 1972 (7 U.S.C. 2662(f)) during fiscal year 1990 shall continue to be eligible to receive grants (in an amount not to exceed the amount received during that fiscal year) under that section notwithstanding that such grants be awarded competitively, so long as such States comply with the requirement under subparagraph (C) that not less than one-half of such grant amount shall be used for clinical outreach counseling and crisis management assistance." Since fiscal year 1990 is cited in Section 2389(d), the Department determined that the "clinical outreach counseling and crisis management assistance" requirement would apply beginning with fiscal year 1991 funding.

However, with the fiscal year 1991 Extension Service appropriations, the Conference Report allocated Section 1440 grants "to the same eight recipient States as last year," and the House Appropriations Committee Report noted that "the Committee will expect that funds provided to the State of Nebraska will be used for the Rural Revitalization Program which assists troubled and disadvantaged farmers/ranchers and communities in rural development initiatives in accordance with the law." Therefore, the fiscal year 1991 funds were not awarded competitively, and the requirement that "not less than one-half of the funds will be used for clinical outreach counseling and crisis management assistance" was applied to all States except Nebraska.

Copies of letters to Extension directors of the relevant States will be provided. [The information follows].

LETTER FROM MYRON D. JOHNSRUD

14 JAN 1991

Dr. Gail Imig
Director
Cooperative Extension Service
University of Missouri
309 University Hall
Columbia, MO 65211

Dear Gail:

The FY 1991 Appropriations Bill provides $2,550,000 to the Extension Service for program grants to Financially Stressed and Dislocated Farm and Rural Families. Formerly identified as Section 1440 grants, the Conference report allocated the funds to the same eight recipient States as last year. Your FY 1991 allocation is $365,415 and reflects the 23.31 percentage reduction in the appropriation. The allocation is again required to be matched fully with Non-Federal funds.

The 1990 farm bill, P.L. 101-624, made several changes in this program (see the enclosed Section 2389). These amendments placed minimum requirements on the use of the grant funds, added a new service that may be provided with program funds, and stipulated revised planning and coordination requirements.

In Section 2389(b)(4), the amendment states that to be eligible to receive a Section 1440 grant, "an applicant must provide suitable assurances that:

> "(i) not less than one-half of the grant funds to the applicant will be used for clinical outreach counseling and crisis management assistance;
> "(ii) a significant number of farms within the State have a ratio of debts to assets of 40 percent or more, the State's rural economy has been facing adverse economic conditions for a period of years, or such other conditions exist, as determined by the Secretary, such that the assistance provided under this subsection is necessary or appropriate;
> "(iii) the planning and implementation of the provision of services under this subsection will be coordinated with the appropriate State agency for mental health, department of health, office of rural health, and any other State agency or department responsible for assisting persons in rural areas of the State; and
> "(iv) the planning and implementation of services under this subsection will be coordinated with the appropriate local governments and other public and private nonprofit agencies and organizations located in rural areas and involved in addressing problems related to the mental health of rural residents."

Section 2389(b)(5) added to the authorized Section 1440 services: "(viii) Assistance for local officials and groups in developing income and employment alternatives." Thus, to the extent that job creating efforts with local officials or community leaders are targeted to assist the community's stressed and dislocated workers, they are now Section 1440 authorized activities.

Regarding additional planning and coordination requirements, Section 2389(b)(6) amended P.L. 100-219 to require that:

> "The Agricultural Extension Service of the Department of Agriculture shall work with the appropriate State office of rural health, State department or agency of mental health, and other public and private nonprofit agencies and organizations in developing an annual comprehensive plan for the use of the grant funds and the delivery of services provided for in this section.

For recipients in a State to be eligible for a grant under this subsection in any fiscal year, the Cooperative Extension Service within the State must develop and sign a Memorandum of Agreement with the appropriate State department or agency of mental health and other State agencies as may be appropriate to carry out the comprehensive plan. Such agreement and plan must emphasize the development and delivery of counseling and outreach programs as provided under subparagraph (B)" (new language is underlined).

We are requesting that you submit a one year grant proposal containing your "annual comprehensive plan" for the use of these funds. Please submit three copies of your proposal in accordance with the guidelines contained in my memorandum of November 21, 1990 (AO-136-P), by February 15, 1991. Your proposal must also include your Memorandum of Agreement with the appropriate mental health agency and the applicant assurances listed above.

If you have any questions concerning this process, please contact Marvin E. Konyha at (202) 382-8744.

Sincerely,

MYRON D. JOHNSRUD
Administrator

LETTER FROM MYRON D. JOHNSRUD

14 JAN 1991

Dr. Kenneth R. Bolen
Director
Cooperative Extension Service
University of Nebraska
214 Agriculture Hall
Lincoln, NE 68583-0703

Dear Ken:

The FY 1991 Appropriations Bill provides $2,550,000 to the Extension Service for program grants to Financially Stressed and Dislocated Farm and Rural Families. Formerly identified as Section 1440 grants, the Conference report allocated the funds to the same eight recipient States as last year. Your FY 1991 allocation is $365,415 and reflects the 23.31 percentage reduction in the appropriation. The House Appropriations Committee Report noted: "The Committee will expect that funds provided to the State of Nebraska will be used for the Rural Revitalization Program which assists financially troubled and disadvantaged farmers/ranchers and communities in rural development initiatives in accordance with the provisions of the law." The allocation is again required to be matched fully with Non-Federal funds.

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"(iv) the planning and implementation of services under this subsection will be coordinated with the appropriate local governments and other public and private nonprofit agencies and organizations located in rural areas and involved in addressing problems related to the mental health of rural residents."

Your State Office of Rural Health contact person is Dr. David Palm and he can be reached at (402) 471-2337.

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We are requesting that you submit a one year grant proposal containing your "annual comprehensive plan" for the use [illegible] Please submit three copies of your proposal in accordance w[illegible]ies contained in my memorandum of November 21, 1990 (AO-136-F), by February 15, 1991. Your proposal must also include your Memorandum of Agreement with the appropriate mental health agency and the applicant assurances listed above.

If you have any questions concerning this process, please contact Marvin E. Konyha at (202) 382-8744.

Sincerely,

MYRON D. JOHNSRUD
Administrator

QUESTIONS SUBMITTED BY SENATOR COCHRAN

EXPANDED FOOD & NUTRITION EDUCATION PROGRAM (EFNEP)

Question. The EFNEP program is an important program that has been well received and utilized by States. In the past, I believe most of the emphasis of the program has been directed to participants in the Food Stamp Program. Has the Extension Service given consideration to integrating the EFNEP program with the Women, Infants and Children (WIC) program educational efforts? Does this sound possible or feasible?

Answer. There has been an agreement between the Food and Nutrition Service and the Extension Service on WIC/EFNEP cooperation and support since 1980, although it was fairly limited in scope. There have been discussions with the Food and Nutrition Service on revising this interagency agreement to expand the opportunities for cooperation. In addition, Extension participated in and provided an exhibit at the National Association of WIC Directors Annual Conference in February 1991 to highlight those EFNEP educational programs which can be of particular benefit to WIC clients. The Extension Service is encouraging State EFNEP Coordinators to build collaborative efforts at the local level, and to increase outreach efforts to reach pregnant teens and women, including those served by WIC sites. Over the past few years, approximately 40 - 45 % of the EFNEP clients were also receiving WIC benefits.

Question. Today families face many difficulties -- inadequate housing, lack of access to health care, poor diets, etc. What educational programs do you have to help address these concerns?

Answer. Extension has demonstrated success in providing programs which help individuals and families maximize limited resources. Programs in nutrition education, resource management, financial planning and stress management are prime examples of established Extension programs that are sorely needed by limited resource families.

The Youth at Risk National Initiative is focusing on strengthening families and strengthening neighborhoods through comprehensive, collaborative, community-wide efforts. Drugs, alcohol abuse, school dropouts, child care, poverty, poor health and poor nutrition, illiteracy, employability, child abuse, premature parenthood, stress, suicide and many other problems face youth today. In this first year, Federal funding is focusing on three major areas: school age child care, science and technology literacy and coalition building. Most States have formed interdisciplinary teams to address the myriad problems facing youth today.

A National Cooperative Extension System Committee on Reaching Limited Resource Audiences was formed in January 1990. The committee is drafting a report to include recommendations for programs, audiences, staff development and funding in this area. In addition to highlighting the need for more programming to meet the needs of this audience, the committee is identifying model programs in resource management, housing, parenting and other disciplines which can be replicated in other States.

Question. We are also concerned about the well-being of children before they reach school age. What are your plans or activities to meet the needs of this age group?

Answer. Over the past two years, ES-USDA in collaboration with Head Start has been conducting a study of the use of a series of age-paced parent education booklets designed to help parents from limited resource families improve their ability to nurture and guide their infants and young children from birth to 36 months of age. The final data from this study are now being collected and should provide information on the effectiveness of the materials and the use of this type of program delivery with this audience.

Additionally, high risk families with young children are addressed in a proposal to the W. K. Kellogg Foundation which is being prepared by a Cooperative Extension consortium of participating 1890 institutions. Some of the goals of this program are to: 1) develop the capacity of limited resource families to create an environment that will enable the intellectual, social, emotional, and physical development of their children; 2) help limited resource families make maximum use of resources by developing personal and management skills that will enable them to achieve economic and social sufficiency; and 3) strengthen the capacity of community agencies and organizations to work together in providing support to parents and other family members.

The Extension Service has signed a Memorandum of Understanding with Kiwanis International and is working with Kiwanis on their major emphasis program entitled, "Young children: Priority One," which focuses on the needs of children prenatal through age 5. These joint efforts will address issues related to infant mortality, the need for day care providers, developmentally appropriate education, early intervention for at-risk children, parent education, safety and pediatric trauma.

The Extension Service and the Agricultural Research Service are currently developing a program to utilize the research from the ARS research laboratory at the Baylor Medical Center to strengthen the Extension Service program for prenatal to 5 year old children.

The Strategic Planning Council of the Extension Committee on Organization and Policy has commissioned a white paper on Children's Well-being. It is being written by a team of State and Federal employees, and will help to identify the major issues facing young children and the opportunities for Cooperative Extension educational programming.

Question. The infant mortality rate in the United States is among the highest in the world for developed nations, and even some lesser developed nations have better rates than the U.S. Have you developed any plans for addressing this serious national issue? What resources would it take to initiate an educational program which can support other Federal as well as local efforts to reduce infant mortality?

Answer. Low birth-weight (LBW) is a major determinant of infant mortality in the U.S. An infant weighing 5.5 lbs. or less is almost 40 times more likely to die during their first 4 weeks of life than the normal birth-weight infant. In addition, LBW survivors are at increased risk of health problems ranging from neurodevelopmental handicaps to lower respiratory tract conditions.

Overwhelming evidence indicates that prenatal care reduces LBW, and is most effective among high-risk women, whether the risk derives from medical factors, socio-demographic factors, or both. The high-risk target audience includes the non-white population, adolescents and those with less than a high school education. Education about the value of prenatal care and the need for appropriate foods during pregnancy can help to address this critical issue.

The Extension Service is placing an increased emphasis on reaching pregnant and parenting teens and women within EFNEP. As mentioned earlier, a closer link between the EFNEP program and WIC can help to build on the success of each program. There is already a nutrition education component to WIC, but in many cases it does not provide the more detailed, basic information that these women need to effectively care for themselves and their young children. EFNEP, through the use of paraprofessionals, can provide the more intensive teaching needed to help these individuals use the WIC foods more wisely and make important long term improvement in their diets. The resources to initiate a new educational program focusing on this issue would be approximately $3 million.

FOOD SERVICE MANAGEMENT INSTITUTE (MS)

Question. As you may know, I have been very interested in the establishment of a Food Service Management Institute. This Institute has now begun operation and will focus on research, development and training activities. It occurred to me that the activities of the Institute and

those of the Extension Service could complement each other in achieving their mission and goals. Has there been any discussion between the Extension Service and the Food and Nutrition Service in this regard?

Answer. Yes, we have met with the Food and Nutrition Service (FNS) liaison to the Food Service Management Institute. Extension has a Food Safety and Quality National Initiative, and one of the projects coordinated under this initiative is the development of a training program for food service workers, particularly those in supermarket deli operations. We discussed with the FNS representative the types of programs already in place in Cooperative Extension, and the opportunity to develop proposals for future educational programming. Additional meetings will take place to strengthen cooperative efforts.

CROP SIMULATION

Question. Last year $500,000 was included in the Extension Service budget to provide technical assistance and support for crop simulation technology developed by the ARS crop science laboratory. It is my understanding that the budget does not include funding to continue this project in Mississippi. Is that true? If not, why not?

Answer. The Crop Simulation project in Mississippi was not included in the President's FY 1992 Budget Request. It was among several projects which were not considered among the top priorities for funding in FY92.

RURAL HEALTH AND SAFETY

Question. The 1990 farm bill authorizes grants for the Extension Service to expand its activities in the areas of rural health and safety education (similar to the bill, S. 2188, I introduced last year). In reviewing the budget, I find that no funding has been requested for such activities. Would you care to comment on this?

Answer. Funding for this new program authorization was not included in the President's FY 1992 budget. However, the Cooperative Extension Service does have ongoing programs in the current fiscal year that address the issues cited in the legislation. These include farm safety, disadvantaged farmer assistance, rural development of infrastructures and nutrition programs.

HOME SEWING PROJECTS

Question. For the past few years the Extension Service has been participating in a very successful home sewing project in Mississippi, Alabama and South Carolina. It is my understanding that no support or

funding is included in the budget for the continuation of this project. What is the Department's position on this project?

Answer. The FY 1992 President's Budget does not include funds for this project. In fact, no funds have ever been appropriated for the Home Sewing projects in these three States. Over the years, including the current fiscal year, Extension Service has contributed over $100,000 for these efforts from within its own administrative funds. The projects are successful and the results have been documented and shared with most States throughout the Cooperative Extension System. We feel the program can continue from ongoing funds within the States.

EFNEP

Question. The Users Advisory Board has asked for a reevaluation of the Expanded Food and Nutrition Education Program (EFNEP). In fact, one of their newest recommendations is to increase the Smith-Lever formula funding (requiring a match) by $30 million and remove the line item funding for EFNEP. What is your reaction to this proposal?

Answer. The Users Advisory Board recommendation that there be broader-based Cooperative Extension System programs to address the basic life needs of low-income groups is supportive of the efforts of the Extension Committee on Reaching Limited Resource Audiences. However, the concept of moving the funding from earmarked to general Smith-Lever formula funds may mean that the program will cease to exist in some States. As the UAB points out, the potential target audience for EFNEP is larger than can be met with existing resources. While many States do leverage their Federal EFNEP dollars with additional funding from other sources, it is unlikely that they would be able to achieve a full matching in order for the program to continue at current levels.

RURAL DEVELOPMENT CENTERS

Question. It is my understanding that the 5 Regional Rural Development Centers are scheduled for intensive review. When and who will be conducting this review (in-house or otherwise)? When might we expect some results of this review?

Answer. The 4 Regional Rural Development Centers at Penn State, Mississippi State, Iowa State and Oregon State will undergo intensive review. The Institute for Business and Industry Development in North Dakota and Rural Enterprises, Inc., in Oklahoma, and 2 other units funded under Smith-Lever 3d funds, will also be reviewed. The review is being conducted by the Cooperative State Research Service (CSRS) and Extension Service (ES). The review team members will be drawn from

inside and outside the Extension and Research Systems. The review is planned for this summer, with results available in the early fall of 1991.

INDIAN RESERVATION AGENTS

Question. Last year, Congress initiated and provided funding ($1.0 million) for an Indian Reservation extension program. No funding is requested to continue this program. Has this funding been obligated? If not, why not? This is a program that has considerable support in Congress. Does the Department not feel there is a need for this program on our reservations?

Answer. Proposals from States have been accepted for this program. The proposals were due February 15 and are currently being reviewed. The successful projects will be awarded in the near future. The funds provided to the States will support this program into fiscal year 1992. Funding for the Indian Reservation Agents program is not included in the Departmental budget request as it was not considered among the top priority by the Administration. More information will be provided to Congress later in a report on the Indian Reservation Agents program.

RENEWABLE RESOURCES EXTENSION ACT

Question. Last summer, the National Research Council of the National Academy of Sciences produced a landmark study entitled "Forestry Research: A Mandate for Change". Are you familiar with the report?

Answer. Yes. We are familiar with both this document and its companion "Report Brief" on the same subject. We have discussed the report with ES staff as well as with representatives from the university community and interest groups. Several ES staff participated in discussions of the report with the principal authors last summer.

Question. One of its recommendations is that the budget for forestry extension under the Renewable Resources Extension Act (RREA) be increased to $15 million. The budget contains no funding for this program in FY 1992. Would you please comment on the Department's position with regard to this program?

Answer. As with all other programs, we must measure activities under the Renewable Resources Extension Act against other priorities. In the case of RREA, we estimate that the States have been providing three dollars for every one contributed through a Federal appropriation. Although the contribution of the Federal partner has been an important catalyst over the past ten years, the States may now be ready to carry certain activities of the program alone. RREA was not considered among the top priorities to be part of the President's budget request for FY 1992.

QUESTION SUBMITTED BY SENATOR SPECTER

RURAL DEVELOPMENT

Question. Last year when the Extension Service appeared before this subcommittee, I questioned what action was seen necessary and source of funds for the Economic Policy Council Working Group on Rural Development's "Plan for Action." At that time, the implementation plan and resource analysis was being prepared, with the Advisory Group on Rural Development preparing to meet. What since that time has been prepared and where do you see the Group's efforts heading?

Answer. The Extension Service-USDA has been involved in all five action steps of the Economic Policy Council Work Group on Rural Development's "Plan of Action." ES-USDA staff worked with the Office of the Under Secretary for Small Community and Rural Development in preparing the presidential rural development initiative, and has provided a staff person on detail to that office in developing the Rural Development Demonstration Program. ES-USDA is working with the USDA working group responsible for implementing the Plan of Action, including its sub-committee on Federal employee training. The Extension Service's State partners are active and supportive members of the State Rural Development Councils. ES-USDA staff also worked with University of Wisconsin - Extension in establishing the National Rural Development Institute, and faculty for the Institute are drawn from State Cooperative Extension Services.

The Plan of Action item, "Resource Targeting and Redirection," has been a priority of the Cooperative Extension System (CES) for the past five years. One of the first priorities identified in the CES national initiative process of focusing programs and targeting resources was "Revitalizing Rural America," and it was reconfirmed in FY 1990 for another three years as one of seven CES national educational initiatives. This initiative is now focusing on rural economic development and competitiveness in a global economy.

Regarding the action item, to "establish a rural development technical assistance center and hotline," ES-USDA was a joint originator of the National Agricultural Library's Rural Information Center (RIC). The Extension Service continues to support the RIC program, and all 50 of our State partners and Guam have State RIC Coordinators who work with local officials and citizens seeking rural development information from the Center.

QUESTIONS SUBMITTED BY SENATOR NICKLES

RURAL DEVELOPMENT

Question. $431,000 was appropriated to the ES in fiscal year 1991 for an on-going program which provides several services to assist Oklahoma businesses, including financial packaging, marketing assistance, incubators, and new product and process evaluation. Please comment on this program.

Answer. This special project funds the Rural Enterprises Inc., (REI), in Oklahoma. The project focuses on: Providing support services for economic development incubator tenants and exploring the feasibility of building additional incubators in the state of Oklahoma; participating in the continuing New Product and Process Fair held at McAlester, Oklahoma, and preparing for the 1991 fair; developing and continuing an active literature program describing the services available; providing financial loan packaging assistance in support of job creation opportunities; soliciting and evaluating new products and processes which may be utilized for the establishment of single products industries or licensed for manufacture to existing industries; and assisting in plant expansion of existing small businesses and continuing to develop linkages through Extension at Oklahoma State University and Langston University.

TECHNOLOGY TRANSFER

Question. $331,000 was appropriated to the ES in fiscal year 1991 for a technology transfer project between Oklahoma and Mississippi. Please comment on this program.

Answer. Currently, the Technology Transfer Program in Mississippi has five objectives - three are continuations and enhancements of efforts already underway with the project, and two are new efforts. The objectives are: Computerized Crop Modeling and Expert Systems; CD-ROM Technology; Small Town and Rural County Governments; Commodity Based Electronic Bulletin Boards; and Linkage with National Science Foundation Lab.

One of the important aspects of the Oklahoma Technology Transfer project has been the interface with Rural Enterprises, Inc. This organization has as an overall responsibility, the creation of employment opportunities in Southeast Oklahoma by aiding those with new product and process ideas, along with other economic development efforts. An Oklahoma Extension Technology Transfer Specialist provides outreach for and refers appropriate clients to Rural Enterprises. Rural Enterprises, from their NASA Industrial Application Center, provides data-based

information searches to the Technology Transfer Specialist in return. Information derived from these information searches has been distributed to clientele and to County Extension Directors.

The Technology Transfer Specialist also serves on the New Product and Process Fair Board. This fair provides a forum for inventors and provides an educational experience for youth.

QUESTIONS SUBMITTED BY SENATOR BOND

EXTENSION SERVICE PROGRAMS

Question. Agriculture and rural America have changed dramatically in the past 20 years. We can expect further changes. We know, for example, that only 30 percent of our farmers produce 90 percent of agricultural products. How is Federal Extension changing to reflect these new realities? Are you adequately meeting the needs of the 30 percent who produce most of the products and the 70 percent who are part time or hobby farmers?

Answer. The Cooperative Extension System has undergone a number of significant changes in recent years to reflect the "new realities" of agriculture and society. The System has defined critical issues and reallocated resources to program toward making a difference regarding those issues. In the agriculture arena, the most critical issues are water quality, waste management, international marketing, sustainable agriculture and food safety. These are five of our current National Initiatives. In addition, we have increased effort in pesticide applicator training and pesticide impact assessment.

In each of these areas the research base of the land-grant university system and USDA has been used as the basis of educational programming. We view these focus areas as a critical supplement to the base programs characteristic of Extension programming.

The bi-modal character of agriculture is a challenge to the Cooperative Extension System. The 30 percent who produce the bulk of the agriculture product have technology needs very different from the small and part time producer. Traditionally, Extension has not targeted programs to these very different groups of clientele within the agriculture community. However, Extension is currently targeting programs and focusing on the needs of these two groups.

Of greatest challenge to the System is that of meeting the needs of high tech agriculture characteristic of the 30 percent who produce a high volume of agriculture products. They have very critical technology needs and expect Extension to respond rapidly. A recent Extension System

task force report focuses on this challenge and we are in the process of implementing some new delivery methods to meet these needs.

Question. Why will we need to have federal extension service 10 years from now?

Answer. The System is challenged to continually change, redirect and redefine our educational role. The Extension Service-USDA is the Federal partner in the Cooperative Extension System partnership of national, state and local governments. The ES-USDA has some very distinct functions to perform in the Cooperative Extension System. They are to:

- Provide national leadership to design, develop, and implement systemwide Extension policies and programs addressing national issues.

- Coordinate, facilitate, review, and evaluate programs of national importance, including fostering linkages of coalitions, and cooperative relationships with other Federal agencies and private organizations.

- Represent the interests and needs of the Cooperative Extension System to the USDA, Executive Branch, Congress, and other agencies and organizations; work with them to develop policy and legislation.

- Represent the Federal interests, including policies and legislation to the Cooperative Extension System.

- Foster and support a dynamic, high performing ES-USDA staff, including, but not limited to: competent, qualified, diverse staff; capable of working in teams; functional organizational structure; and sound communication infrastructure and systems.

State and local needs are critical to the success of the total program. However, issues of national concern need leadership which the federal partner can provide. ES has also provided strong leadership in strategic planning for the System. This effort will continue and the national Cooperative Extension System will, as a result of interaction and consensus, continue to change and respond with educational programs related to critical needs of people.

FOOD SAFETY

Question. What type of education programs do you have to deal with food safety concerns?

Answer. In dealing with food safety concerns, the Cooperative Extension System is pursuing two approaches. First, we are continuing to reduce

risks present in the food supply by conducting education programs for producers, processors, food handlers and consumers to teach them the skills required to reduce the hazards of contamination. Current CES programs include Integrated Pest Management, Pesticide Applicator Training, the Food Animal Residue Avoidance Program, commodity specific production programs, food handler training, and adult and youth consumer educational programs. These programs are directed toward economically efficient, safe and legal use of agricultural chemicals, and safe food processing, storage, distribution, and handling practices.

The second approach is to improve public understanding about the scientific and/or policy bases for risk management decisions. These include decisions about how risks are assessed, monitored and prevented or reduced. Extension programs emphasize helping the public become more informed and better able to implement thoughtful, considered decisions. Last October and November two regional workshops were held to provide Extension training teams with skills in risk communication and a more thorough background in risk assessment and risk management. Currently these teams are conducting training nationwide to both Extension and nonExtension personnel to help them implement programs on risk management. Programs supporting this approach vary from providing educational experiences; to understanding; scientific concepts; facilitating risk/benefit dialogues; and conducting public policy education programs.

Question. Do you have education programs for producers on all chemicals currently used, not just restricted use chemicals?

Answer. Yes, ES through the Cooperative Extension System (CES) continues to provide educational programs for producers on chemicals, restricted and non-restricted, currently being used in agricultural production.

The Extension System has been delivering educational programs on pesticides and their safe use since the mid-sixties, almost 10 years before the amendment to FIFRA established the current certification and training program for pesticide applicators of restricted use pesticides. We have increased emphasis on integrating information on safe and environmentally sound practices throughout our educational programs for producers.

Question. Water quality is a key national concern. What are you doing in a coordinated research, extension, and other agency efforts to address this area?

Answer. The quality of the Nation's water resources is indeed an important concern. In support of President Bush's Water Quality Initiative, the Department of Agriculture has developed and has implemented a Water Quality Program Plan to deal with the issue of

agricultural contaminants and their effects on water resources. These programs integrate the combined expertise of USDA agencies to accelerate the adoption and use by farmers and ranchers of environmentally and economically sound production practices and to develop improved chemical and biological pest controls.

The Cooperative Extension System is playing a major role in implementing this program in every State in the Nation. In cooperation and collaboration with the Soil Conservation Service (SCS) and the Agricultural Stabilization and Conservation Service (ASCS), ES has implemented joint program efforts to demonstrate current "state of the art" production practices and technologies, remediate State and locally identified water resource improvements from agricultural contaminants, and to strengthen the ability of each of the agencies to deliver programs that prevent additional future impairment. The latter effort has focused on pesticides, nutrients, animal waste, well head protection and staff development and training.

The coordination of these programs has extended beyond USDA agencies to include the Environmental Protection Agency (EPA), the U.S. Geological Survey (USGS), as well as State Water Quality agencies and local entities such as Soil Conservation Districts. The research agencies of USDA, the Agricultural Research Service (ARS) and the Cooperative State Research Service (CSRS), have implemented coordinated research programs to support the technology development needs of the USDA action agencies. The Midwest Research Initiative is a good example. Implemented jointly by ARS, CSRS, and USGS in five midwestern states, it has an Extension Service led component to insure that the research results from this effort are made available to farmers throughout the Nation. The level of coordination among USDA agencies and between USDA agencies and other federal, State and local agencies and organizations, is producing a synergistic effect that could not be achieved by the agencies individually.

QUESTION SUBMITTED BY SENATOR HATFIELD

RENEWABLE RESOURCES EXTENSION ACT

Question. Mr. Chairman, Senator Cochran, and members of the Subcommittee, with your assistance in pursuing a strong agricultural research agenda, Oregon has been able to diversify and improve its more than 170 agricultural commodities. This research has played an important role in allowing the Pacific Northwest to compete in an increasingly competitive international market, as well as addressing the growing concern for protecting the environment. The roles of CSRS, ARS and the Extension Service are critical in supporting our agricultural base and in keeping the United States at the forefront of agricultural

research. Given this, I have several questions concerning important research of benefit to the Northwest region and the nation. As you know, the Renewable Resources Extension Act allows more than 1700 individuals in my state to participate in at least twenty innovative programs to improve our renewable resources; similar successes can be documented in other states. The President's FY 1992 budget proposal contains no funding for this program. Did ES recommend funding for this program, and if so, what was the recommendation; and what are the implications of zero funding for RREA?

Answer. ES-USDA requested funding in the amount of $4 million for RREA in FY 1992. States have been contributing the majority of funds for RREA activities. States may now be ready to carry certain activities of the program alone.

NATIONAL AGRICULTURAL LIBRARY

QUESTIONS SUBMITTED BY SENATOR BURDICK

National Feed Composition Data Bank

Question: What is the status of the National Feed Composition Data Bank?

Answer: Operations of the Feed Composition Data Bank were suspended in December, 1990. Since that time no new data has been added to the data bank, and no reports have been generated. There is currently no subject expert on staff to assign authority control numbers, to provide quality control, or to offer in-depth answers to queries. The National Agricultural Library continues to provide basic answers to questions about the data bank, to provide brief answers requiring simple table searches, and to provide machine-readable copies of the data bank to those desiring it.

Question: Was it discontinued in December, 1990, and why?

Answer: Operations were suspended as described above, because of a lack of adequate resources to maintain the Feed Composition Data Bank. The decision to suspend operations was precipitated by the departure from NAL in October, 1990 of the individual responsible for the data bank.

Question: What amount of funding did it receive in 1991? Because your budget does not reflect a reduction for the data bank, for what are the funds being used?

Answer: The data bank was funded at $61,000 for FY 1991, the same as originally appropriated in FY 1987. A portion of the funds is being used to offset the time spent by NAL staff in responding to questions regarding the data bank and for staff and data processing charges incurred while generating copies of the data bank and accompanying documentation. Funds are also being used to continue NAL's involvement in discussions with other members of the International Network of Feed Information Centers (INFIC), and with national feed association and industry representatives regarding the data bank.

Question: It is alleged that the data bank had several problems including inadequate data collection, incorporation and update, and outdated nutrient composition. What amount of funding would be needed to maintain a good feed composition data bank?

Answer: The allegations are true, but limited resources yield limited results. Funding at the level of $600,000 would enable NAL to maintain an excellent feed composition data bank. This amount would include funds for broadening our base for data collection, continual review and updating of the values in the data bank, updating the data bank to a flexible, interactive microcomputer system, and provide some funding for research to fill in gaps in the data bank.

SUBCOMMITTEE RECESS

Senator BURDICK. This concludes today's hearing. Our next hearing will be held on Friday, March 8, 1991, in this same room at 10 a.m. The subcommittee will receive testimony from the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, the General Sales Manager, and Soil Conservation Service.

The subcommittee stands in recess.

[Whereupon, at 3:45 p.m., Monday, March 4, the subcommittee was recessed, to reconvene at 10:05 a.m., Friday, March 8.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

FRIDAY, MARCH 8, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Kerrey, Specter, and Bond.

DEPARTMENT OF AGRICULTURE

STATEMENT OF RICHARD T. CROWDER, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

ACCOMPANIED BY:
JAMES MOSELEY, ASSISTANT SECRETARY, NATURAL RESOURCES
DENNIS KAPLAN, BUDGET OFFICER

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

STATEMENT OF KEITH D. BJERKE, ADMINISTRATOR

FOREIGN AGRICULTURAL SERVICE

STATEMENT OF DUANE ACKER, ADMINISTRATOR

OFFICE OF GENERAL SALES MANAGER

STATEMENT OF F. PAUL DICKERSON, GENERAL SALES MANAGER

SOIL CONSERVATION SERVICE

STATEMENT OF WILLIAM RICHARDS, CHIEF

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on the fiscal year 1992 budget for agriculture, rural development, and related agencies. We will review the budget for the Agricultural Stabilization and Conservation Service, the Foreign Agricultural Service, the General Sales Manager, and the Soil Conservation Service.

Our witnesses are Richard T. Crowder, Under Secretary, International Affairs and Commodity Programs; James Moseley, Assistant Secretary, Natural Resources; Keith D. Bjerke, Administrator,

Agricultural Stabilization and Conservation Service, who hails from the great State of North Dakota; Duane Acker, Administrator, Foreign Agricultural Service; F. Paul Dickerson, General Sales Manager; William Richards, Chief, Soil Conservation Service; and Dennis Kaplan, Budget Officer of USDA. Welcome to you all.

We will cover a wide range of issues today because the agencies represented administer all of the conservation programs, the foreign export programs, as well as the domestic farm programs. A new farm bill was just enacted which makes significant changes in all of these programs so I know that all of you are probably up to your ears in dealing with the changes while at the same time keeping the ongoing programs running.

I would like to make a special welcome to Mr. Moseley and Mr. Richards, both of whom are appearing before this subcommittee for the first time.

Gentlemen, we have statements from each of you which will be made a part of the record in full. Mr. Crowder and Mr. Moseley, I will ask you to make your oral statements summarizing the budgets for each of the agencies, after which we will entertain questions from the subcommittee for each of the agencies.

So, Mr. Crowder or Mr. Moseley, if you wish, would you proceed?

STATEMENT OF RICHARD T. CROWDER

Dr. CROWDER. Thank you, Mr. Chairman. I will start. It is good to appear before you again today to have the opportunity to discuss with you the 1992 budget and program proposals for the international affairs and commodity programs area of the Department. Statements by each of the Administrators providing details on their agencies' budgets and program proposals for 1992 have already been submitted to the committee, and my statement will summarize the budget proposals. After Mr. Moseley's statement, we will be pleased to answer your questions.

FARM PRICE AND INCOME SUPPORT PROGRAMS

The Commodity Credit Corporation spending for commodity price and income supports, which peaked at $25.8 billion in fiscal year 1986, declined to $6.5 billion in fiscal year 1990, and this was the lowest level since 1981. For fiscal 1991 we project Commodity Credit Corporation spending to rise to $10.8 billion, and the President's fiscal 1992 budget projects spending under these programs to increase a little more, to $11.1 billion next year.

In general the increases for this fiscal year and the next stem from a return to more normal yields following 2 years of abnormal weather. The fiscal year 1992 projected outlay figure would have been about $2 billion higher but for the provisions of the Omnibus Budget Reconciliation Act, the OBRA.

The 1991 crops for which signup has just begun will be governed by the Food, Agriculture, Conservation, and Trade Act, or the FACT Act, of 1990. The FACT Act and the OBRA together continue the market-oriented approach to farm policy contained in the successful Food Security Act of 1985 and at the same time make significant contributions to reducing the Federal deficit.

The majority of the 1991-crop program announcements have already been made. Wheat, feed grains, cotton, oilseeds, and honey provisions were announced on December 31, 1990, and the rice program was announced on January 30, 1991. Many of the remaining program decisions are the subjects of proposed rulemaking activity to ensure that the Department receives input from affected parties. Our aim is to get the remainder of the final rules published before signup ends on April 26.

In terms of CCC financing, fortunately, with much lower annual expenditures for CCC activities, we have not experienced any funding emergency in recent years. However, we would again propose that the CCC receive a current, indefinite appropriation for reimbursement of realized losses to ensure maximum flexibility for CCC financing directly from Treasury. We estimate that about $9 billion would be drawn to restore CCC realized losses under the proposed authority in fiscal year 1992.

Turning to the international programs, our programs aimed at maintaining our share of international trade and at helping to promote sales of U.S. farm products are part and parcel of our negotiating efforts in the GATT. Unfortunately the talks did not conclude in December as we had hoped. Reforms are still very much in the realm of possibility, but more time is needed by the negotiating parties.

Meanwhile, our Export Enhancement Program, or EEP, must continue uninterrupted, and of course we will continue to facilitate U.S. agricultural exports through the GSM–102 and –103 credit programs during fiscal year 1992. The Export Enhancement Program is at present, we believe, effectively limited to $425 million in new bonus authority for fiscal year 1991. About 97 percent of that authority is already used. We need to have the limits lifted very soon so that the program can continue to operate for the remainder of the year.

We have submitted supplemental appropriations language to remove the limit on the EEP, and request prompt enactment of this legislation. For fiscal year 1991 we believe we will need $900 million in EEP authority, and for fiscal 1992 we have estimated that bonuses could total as much as $1.2 billion. We would hope that in the future Congress will not limit the administration's flexibility with its EEP program.

We are proposing a total program level of $5.7 billion for fiscal 1992 for the export credit guarantee programs. Of this, $5 billion is requested for GSM–102, $500 million for GSM–103, and $200 million to assist emerging democracies in purchasing U.S. farm products.

For Public Law 480 food assistance we are recommending a program level of $1.4 billion. While this level of funding is somewhat reduced from this year, we estimate that it will still provide for total commodity shipments of 6 million metric tons.

The fiscal year 1992 budget requests a modest funding increase for the Foreign Agricultural Service to meet higher operating costs projected for the agency's overseas offices. More funding is also needed for new data processing equipment and for salary increases. The agency's counselor, attache, and Agricultural Trade Offices are vital to carry out FAS's foreign reporting, representation, and mar-

ket development activities, and should be maintained at present levels. Funding for FAS market development activities, including the cooperator program, is proposed to continue at this year's level.

For the General Sales Manager's office, additional funding is requested to provide additional data processing equipment to improve the administration and oversight of the Department's commercial export programs. As is the case with other agencies, salary increases must also be provided for.

For the Office of International Cooperation and Development, the budget proposes a small decrease in funding for the agency's scientific and technical cooperation activities. This program, which supports short-term exchange visits of scientists and others between the United States and foreign countries, will continue its activities in conjunction with the Soviet Union, Eastern Europe, and Ireland. We plan to place new emphasis on programs with Taiwan and Yugoslavia as well. Most other OICD activities, including its reimbursable activities funded by other agencies, will continue near current levels.

We are requesting $1.5 million for the Middle Income Country Training Program. However, no further funding is requested for the Foreign Currency Research Program.

For conservation programs, the President's budget for fiscal year 1992 supports continued funding for traditional conservation programs and implements the conservation provisions of the FACT Act. Enrollment in the Conservation Reserve Program will be carried out under expanded eligibility criteria that focus on environmentally sensitive lands, which include cropland with water quality problems, saline lands, and wellhead protection areas. In 1991 we hope to enroll about one-half million acres in the CRP under the signup scheduled to end March 15.

The FACT Act also establishes a Wetlands Reserve Program which is new, and this will be carried out in conjunction with the CRP. Rather than entering into a 10-year contract under the WRP, we will purchase conservation easements on farmed or converted wetlands which will guarantee long-term protection of these lands. The budget proposes an initial signup of 150,000 acres in the WRP. Our goal is to reach a combined CRP/WRP enrollment of 40 million acres by 1995, as called for in the FACT Act. This includes the 33.9 million acres already enrolled in the CRP.

We are again requesting funds, at slightly below 1991 levels, for the Agricultural Conservation Program, or the ACP. This will support traditional ACP activities as well as fund water quality projects. Also included in the ACP request is up to $5 million to initiate the new Water Quality Incentives Program authorized by the FACT Act. Under this pilot program the Secretary will enter into agreements of 3 to 5 years with farmowners and operators to implement water quality protection plans.

For ASCS salaries and expenses in fiscal 1991, we are requesting a supplemental appropriation of $86.9 million. These funds are needed to ensure adequate staffing and support to implement the FACT Act this spring and summer for the 1991 crops. For fiscal year 1992 we are requesting funding of $769.7 million, reflecting a further need for staffing to administer the FACT Act, probably the most complicated farm legislation ever enacted.

PREPARED STATEMENTS

Mr. Chairman, this concludes my introductory remarks, and after Mr. Moseley's statement we will be glad to answer your questions.

[The statements follow:]

STATEMENT OF RICHARD T. CROWDER

Mr. Chairman, Members of the Committee, I am pleased to appear before you today and to have the opportunity to discuss with you the 1992 budget and program proposals for the international affairs and commodity programs area of the Department of Agriculture. I am accompanied today by Keith Bjerke, Administrator of the Agricultural Stabilization and Conservation Service (ASCS); Duane Acker, Administrator of the Foreign Agricultural Service (FAS) and of the Office of International Cooperation and Development (OICD); Paul Dickerson, the General Sales Manager; and Dennis Kaplan of the Office of Budget and Program Analysis.

Statements by each of these Administrators, providing details on their agencies' budgets and program proposals for 1992, have already been submitted to the Committee. My statement will summarize the budget proposals. After that, we will be pleased to answer your questions.

FARM PRICE AND INCOME SUPPORT PROGRAMS

Commodity Credit Corporation (CCC) spending for commodity price and income supports, which peaked at $25.8 billion in fiscal year 1986, declined to $6.5 billion in fiscal year 1990, the lowest since 1981. For fiscal year 1991, we project CCC spending to rise to $10.8 billion. The President's fiscal year 1992 budget projects spending under these programs to increase a little more to $11.1 billion next year. In general, the increases for this fiscal year and next stem from a return to more normal yields following two years of abnormal weather. The fiscal year 1992 projected outlay figure would have been about $2 billion higher but for the provisions of the Omnibus Budget Reconciliation Act (OBRA).

The 1991 crops, for which signup has just begun, will be the first governed by the Food, Agriculture, Conservation and Trade Act—the FACT Act—of 1990. The FACT Act and OBRA together continue the market-oriented approach to farm policy contained in the successful Food Security Act of 1985 and, at the same time, make significant contributions to reducing the Federal deficit.

The majority of 1991-crop program announcements have already been made. Wheat, feed grains, cotton, oilseeds and honey provisions were announced on December 31, 1990. The rice program was announced on January 30, 1991. Many of the remaining program decisions are the subjects of proposed rulemaking activity to ensure that the Department receives input from affected parties. Our aim is to get the remainder of the final rules published before signup ends April 26.

CCC FINANCING

Fortunately, with much lower annual expenditures for CCC activities, we have not experienced any funding emergency in recent years. However, we would again propose that CCC receive a current, indefinite appropriation for reimbursement of realized losses to ensure maximum flexibility for CCC financing directly from Treasury. We estimate that about $9 billion would be drawn to restore CCC realized losses under the proposed authority in fiscal year 1992.

INTERNATIONAL PROGRAMS

Our programs aimed at maintaining our share of international trade and at helping to promote sales of U.S. farm products are part and parcel of our negotiating efforts in the GATT. Unfortunately, the talks did not conclude in December, as we had hoped. Reforms are still very much in the realm of possibility, but more time is needed by the negotiating parties.

Meanwhile, our Export Enhancement Program (EEP) must continue uninterrupted, and, of course, we will continue to facilitate U.S. agricultural exports through the GSM–102 and –103 credit programs during fiscal year 1992.

The EEP is, at present, we believe, effectively limited to $425 million in new bonus authority for fiscal year 1991. About three-fourths of that is already used. We need to have the limits lifted very soon so that the program can continue operating for the remainder of the year. We have submitted supplemental appropriations lan-

guage to remove the limit on EEP and request prompt enactment of this legislation. For fiscal year 1991, we believe we will need $900 million in EEP authority, and for fiscal year 1992, we have estimated that bonuses could total as much as $1.2 billion. We would hope that in the future, Congress will not limit the Administration's flexibility with its EEP program.

We are proposing a total program level authorization of $5.7 billion for fiscal year 1992 for the export credit guarantee programs. Of this, $5 billion is requested for GSM–102, $500 million for GSM–103 and $200 million to assist emerging democracies in purchasing U.S. farm products.

For Public Law 480 food assistance, we are recommending a program level of $1.4 billion. While this level of funding is somewhat reduced from this year, we estimate it will still provide for total commodity shipments of nearly 6 million metric tons.

The fiscal year 1992 budget requests a modest funding increase for the Foreign Agricultural Service (FAS) to meet higher operating costs projected for the agency's overseas offices. More funding is also needed for new data processing equipment and for salary increases. The agency's counselor, attache, and Agricultural Trade Offices are vital to carry out FAS's foreign reporting, representation, and market development activities, and should be maintained at their present levels. Funding for FAS market development activities, including the cooperator program, is proposed to continue at this year's level.

For the General Sales Manager's Office, additional funding is requested to provide for additional data processing equipment to improve the administration and oversight of the Department's commercial export programs. As is the case with other agencies, salary increases also must be provided for.

For the Office of International Cooperation and Development (OICD), the budget proposes a small decrease in funding for the agency's Scientific and Technical Cooperation activities. This program, which supports short-term exchange visits of scientists and others between the United States and foreign countries, will continue its activities in conjunction with the Soviet Union, Eastern Europe, and Ireland. We plan to place new emphasis on programs with Taiwan and Yugoslavia, as well. Most other OICD activities, including its reimbursable activities funded by other agencies, will continue near current levels. We are requesting $1.5 million for the Middle-Income Country Training Program. However, no further funding is requested for the Foreign Currency Research Program.

CONSERVATION PROGRAMS

The President's Budget for fiscal year 1992 supports continued funding for traditional conservation programs and implements the conservation provisions of the FACT Act. Enrollment in the Conservation Reserve Program (CRP) will be carried out under expanded eligibility criteria that focus on environmentally sensitive lands which include cropland with water quality problems, saline lands, and wellhead protection areas. In 1991, we hope to enroll about one-half million acres in the CRP under the signup scheduled to end March 15.

The FACT Act also establishes a new Wetlands Reserve Program (WRP) which will be carried out in conjunction with the CRP. Rather than entering into 10-year contracts, under the WRP we will purchase conservation easements on farmed or converted wetlands which will guarantee long-term protection of these lands.

The budget proposes an initial signup of 150,000 acres in the WRP. Our goal is to reach a combined CRP/WRP enrollment of 40 million acres by 1995 as called for in the FACT Act. This includes the 33.9 million acres already enrolled in the CRP.

We are again requesting funds, at slightly below 1991 levels, for the Agricultural Conservation Program (ACP). This will support traditional ACP activities as well as fund water quality projects. Also included in the ACP request is up to $5 million to initiate the new Water Quality Incentives Program authorized by the FACT Act. Under this pilot program, the Secretary will enter into agreements of 3 to 5 years with farm owners and operators to implement water quality protection plans.

ASCS SALARIES AND EXPENSES

For fiscal year 1991, we are requesting a supplemental appropriation of $86.9 million. These funds are needed to ensure adequate staffing and support to implement the FACT Act this spring and summer for the 1991 crops.

For fiscal year 1992, we are requesting funding of $769.7 million, reflecting a further need for staffing to administer the FACT Act, probably the most complicated farm legislation ever enacted.

This concludes my introductory remarks, Mr. Chairman. We would be pleased to answer any questions you may have.

STATEMENT OF KEITH D. BJERKE

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to discuss the fiscal year 1992 budget request for the Agricultural Stabilization and Conservation Service. I expect 1991 and 1992 to be challenging years for our Agency as the provisions of the Food, Agriculture, Conservation, and Trade Act of 1990—the FACT Act—are implemented. Our requests reflect the funding that we will need to fulfill our role in meeting these challenges. I would like to begin my presentation with our conservation proposals, discuss the CCC budget, and close with our Salaries and Expenses request.

CONSERVATION

CONSERVATION RESERVE PROGRAM

As you know, Mr. Chairman, no CRP signup was held in fiscal year 1990 because extensive changes to the program were under consideration during the 1990 Farm Bill deliberations. The FACT Act of 1990 does indeed redirect the program. The Conservation Reserve Program, along with the new Wetlands Reserve Program, now comprises the Environmental Conservation Acreage Reserve Program (ECARP). Under the FACT Act, the ECARP is to enroll a minimum total of 40 million acres, including the 33.9 million acres already enrolled in the CRP, by the end of 1995. Acreage enrolled in the Wetlands Reserve will count toward the 40-million-acre minimum. The CRP acres will be enrolled under the expanded eligibility criteria of the FACT Act, to include environmentally sensitive land such as cropland that contributes to water quality degradation, new filter strips and waterways, saline lands, and wellhead protection areas.

The 1991 program is expected to enroll 550,000 1991-crop acres under the signup scheduled for March 4–15. The 1992 program anticipates that 1.1 million 1992-crop acres will enter the reserve—800,000 acres of highly erodible cropland and 300,000 acres of cropland addressing water quality and other environmental problems—for a total of 35.6 million acres through fiscal year 1992.

The 1992 budget request of $1.643 billion, together with an estimated carryover balance of $147.8 million, will provide $97.3 million to share the cost of establishing vegetative cover in 1992; $1.688 billion to make rental payments on acres enrolled in 1991 and prior years; and $5.2 million for technical assistance.

WETLANDS RESERVE PROGRAM

As mentioned, the Wetlands Reserve Program is a new program authorized by the FACT Act as a companion to the CRP, under the ECARP umbrella. The WRP offers producers the opportunity to sell conservation easements on farmed or converted wetlands. The budget request of $124.35 million will provide an estimated $87.75 million for the purchase of easements on 150,000 acres, including acquisition costs such as surveys and transfer taxes; $18 million for cost-sharing of restoration practices; and $18.6 million for Soil Conservation Service technical assistance.

Our desire is to work closely with the Congress in the implementation of this new program, and, therefore, we are requesting "up-front" appropriation funding for the entire cost of the 150,000 acres, even though some payments to producers, at their option, would be made over a number of years. No easement contracts will be entered into until Congress approves a fiscal year 1992 appropriation to do so. The Department's goal is to enroll a total of 600,000 acres under the program by the end of 1995.

AGRICULTURAL CONSERVATION PROGRAM

Our ACP request for fiscal year 1992 is $183.024 million, down $7.1 million from the 1991 appropriation but slightly higher than the adjusted appropriation for 1990. We believe this funding level will enable us to operate a strong nationwide program while supporting the Administration's continuing water quality initiative and implementing the new Water Quality Incentives Program (WQIP) authorized by the FACT Act.

The request will provide for ongoing activities as follows: $130.7 million for annual agreements, $20 million for long-term agreements, $2 million for the variable cost-share level project, $23 million for the USDA water quality initiative, $5.0 million for WQIP and $2.3 million for technical assistance.

The $23 million in water quality funding would provide $1.8 million for 1990 and 1991 national demonstration projects, $12.1 million for announced 1990 and 1991 hydrologic unit projects, and $9.1 million for water quality special projects.

The technical assistance estimate of $2.3 million reflects a proposed change in appropriation language to increase from 1 percent to 1½ percent the amount of ACP funding that can be transferred to agencies other than SCS for technical assistance. This change will provide the flexibility to cover such items as Extension Service assistance on the Integrated Crop Management practice, as well as other needs as they arise.

In addition, the ACP request includes $5 million for water quality incentives practices of the type authorized for WQIP in section 1439 of the FACT Act. The practices will provide incentive payments, cost sharing, and technical assistance to meet water quality standards or goals. A change in ACP appropriation language is requested to permit incentive payments for these practices.

At the requested level, the ACP will assist in applying conservation practices on 8.7 million acres, thus saving 27.1 million tons of soil and 535,000 acre-feet of water.

WATER BANK PROGRAM

For fiscal year 1992 we are again proposing a dual program under proposed legislation to permit participants to choose between 10-year agreements and permanent conservation easements on wetlands and adjacent land. The budget assumes that about one-third of the acreage enrolled in the program would be under permanent easement.

The 1992 budget presentation for this program differs from the 1991 budget in that, last year, all funds estimated to be used for permanent easements were shown under proposed legislation; the current law request reflected the remainder. In contrast, this year's current law request of $10.935 million represents the funding that would be needed to bring under 10-year agreement the full 53,016 acres expected to be enrolled in the program in 1992 if our proposed legislation to authorize easements is not enacted. The proposed legislation request of $460 thousand reflects only the additional amount that would be needed to cover the higher costs if program participants opt for permanent easements on the assumed one-third of the 1992 acres, if permanent easements are authorized.

OTHER PROGRAMS

For the Colorado River Basin Salinity Control Program we are requesting $14.783 million, the same amount as the fiscal year 1991 appropriation. At this level, our focus will be on existing projects, rather than on initiating new ones. For the Forestry Incentives Program, our request is $12.446 million, the same amount as appropriated in each of the last three years. No funding is requested for the Emergency Conservation Program or the Dairy Indemnity Program.

COMMODITY CREDIT CORPORATION

COMMODITY PROGRAM OUTLAYS

CCC net outlays in fiscal year 1990 totaled $6.5 billion, down from $10.5 billion in fiscal year 1989. Decreased disaster assistance payments and lower program costs for upland cotton and corn were the main reasons for this decline. CCC net outlays have declined from the record high in 1986 for each of the past four years, with 1990 outlays the lowest since 1981.

The 1985 Food Security Act—FSA—expires with the 1990 crop year. This legislation began the transition toward a more market-oriented agricultural economy. While the FSA went a long way toward achieving this goal, the new FACT Act adds additional market orientation through planting flexibility. For each enrolled crop acreage base, this flexibility allows a farmer to plant up to 25 percent of such base acreage to crops other than the program crop without losing that program crop's base. The FACT Act also maintains an adequate level of price support to ensure stability in the Nation's food and fiber system.

Farmers participating in CCC programs will also be affected by provisions of the Omnibus Budget Reconciliation Act of 1990. Loan origination fees and marketing assessments for oilseeds and other non-program crops including dairy are required through fiscal year 1996. Total outlay reductions for the 1991–1996 period are estimated in the budget at $1.5 billion. To further reduce the budget deficit, farmers will not receive any deficiency payments on 15 percent of their base acreage for the 1991–1995 crops. While this legislation will achieve a reduction in CCC outlays, an additional effect is to create a more market-oriented environment for making planting decisions. These two new laws will give farmers more opportunity to respond to price signals in the market.

CCC outlay estimates for fiscal years 1991 and 1992 assume normal weather conditions and incorporate assumptions about how farmers will respond to market signals and CCC program benefits. For fiscal year 1991, net outlays are projected at $10.8 billion, an increase of $4.4 billion over fiscal year 1990. These outlays are based largely on 1990 crop provisions of the FSA. Lower expected prices for wheat increase deficiency payments by $2.0 billion for fiscal year 1991. Also contributing to the 1991 outlay increase is about $950 million in claims estimated to be paid for Iraq export credits guaranteed by CCC under CCC's export guarantee programs. Outlays for fiscal year 1992, based largely on 1991 crop provisions of the FACT Act, are projected at $11.0 billion. This is approximately $2 billion lower than what would have been expected without the new provisions of the FACT Act and the Omnibus Budget Reconciliation Act.

APPROPRIATION LANGUAGE CHANGES

Several new CCC appropriation language changes are proposed in the budget:

We are proposing a $3 million CCC spending cap for hazardous waste operations and maintenance costs in fiscal year 1992. All other CCC-related hazardous waste management costs are included in the USDA Hazardous Waste Management appropriation, beginning in fiscal year 1992. This proposal would limit future CCC spending to operational and maintenance costs of water treatment facilities, while the Department's fund would finance all investigative and cleanup costs.

For fiscal year 1992, we propose to spend a maximum of $1 million in CCC funds to conduct an options pilot program as required by the FACT Act to assess futures options trading by producers as an alternative means of price support.

Commodity Supplemental Food Program donations from CCC stocks in excess of the amounts mandated in the FACT Act are proposed to be made only to the extent that such excess donations are not inconsistent with CCC's mission of protecting farm income and promoting competition in world trade.

CCC FINANCING

We are again proposing that CCC receive a current, indefinite appropriation for reimbursement of realized losses, with no cap, to ensure maximum flexibility for CCC financing directly from Treasury. Our estimate of the funds that would be drawn to restore CCC realized losses under the proposed authority in fiscal year 1992 is $9.0 billion. This estimate is $4.0 billion higher than the amount appropriated in fiscal year 1991. This increase is needed because estimated CCC available borrowing authority is $6.5 billion less at the beginning of fiscal year 1992, compared to 1991. Therefore, a higher appropriation in fiscal year 1992 is required in order to maintain a prudent operating margin.

CREDIT REFORM

Beginning in fiscal year 1992, the enacted credit reform legislation will affect the CCC export credit guarantee programs. All subsidy costs arising from GSM–102 and GSM–103 commitments made in fiscal year 1992 and beyond will be identified in a separate CCC guarantee loan program account and not in the main CCC account. Our estimate of this subsidy in fiscal year 1992 is $155.5 million, which would be drawn down from the U.S. Treasury in accordance with the credit reform legislation. As required, we are also requesting a separate appropriation of $3.3 million for related administrative expenses.

These administrative costs are for servicing fiscal year 1992 export guarantees as well as guarantees committed prior to fiscal year 1992. Of the $3.3 million requested, $2.7 million would be transferred to the Office of the General Sales Manager and $0.6 million to the Salaries and Expenses account of the Agricultural Stabilization and Conservation Service. These costs were formerly included in the Agricultural Stabilization and Conservation Service Salaries and Expenses account as transfer authority from CCC, and in the General Sales Manager account as allotment transfers from the CCC.

ADMINISTRATIVE SUPPORT

Mr. Chairman, I know you are aware of the degree to which ASCS workload, especially in our county offices, varies with changes in legislated provisions of farm programs. The FACT Act will have a major impact on our operations and funding needs in both fiscal year 1991 and fiscal year 1992. I would like to highlight our 1991 funding situation and our 1992 request.

FISCAL YEAR 1991

The Budget transmitted on February 4 includes a fiscal year 1991 supplemental request of $86.9 million in CCC transfer authority for our Salaries and Expenses account. The fiscal year 1991 Agriculture Appropriations Act provides CCC transfer authority of $630.4 million for fiscal year 1991, essentially the same level as fiscal year 1990. For a number of reasons, this amount is estimated to fall short of our funding needs for the year even before taking into consideration the FACT Act's effect on our workload. Major contributors to the 1991 shortfall are increases in uncontrollable costs such as pay raises, rent, utilities, postage, and matching of FERS employees' contributions to the Thrift Savings Plan. In addition, the original fiscal year 1991 Budget assumed a higher level of financing from reimbursements and other sources than is now available, while non-reimbursable workload has increased in areas such as oversight of payment limitations, export guarantee risk analysis, sodbuster and swampbuster compliance, and other existing program areas.

Administrative costs for implementation of the FACT Act are not funded within the enacted 1991 appropriation, and this new legislation will add significantly to our workload. New activities in fiscal year 1991 include new CRP signups under expanded eligibility criteria, expanded marketing loan activities, triple base/flex option commodity programs, cost-sharing on ACR acreage, workload associated with the new Wetlands Reserve Program that must be accomplished before contracting can begin in fiscal year 1992, and increased compliance and payment limitation requirements. All of these new activities must be supported by ADP systems development, comprehensive employee training, particularly at the county level, and communication with individual producers to provide information on new programs and commodity program signup options.

We have necessarily had to begin work on many of these activities early in the fiscal year, and enactment of the requested supplemental will permit us to staff at a level of 16,801 in counties, compared to 16,010 in 1990, avoid an employee furlough late in the fiscal year, and avert interruptions in service to producers.

FISCAL YEAR 1992

Our funding request of $769.7 million for fiscal year 1992 is a net increase of $52.4 million over the fiscal year 1991 adjusted level. Of the $52.4 million increase, $26.6 million reflects the annualized fiscal year 1991 pay increase and the proposed government-wide pay increase for fiscal year 1992. The remaining $25.8 million covers increases in operating costs such as rent, utilities, supplies and materials, and telecommunications, and also provides for an increase of 156 county office staff years to handle workload associated with the first full year of the FACT Act—primarily for marketing loan activity and compliance requirements related to the triple base/flex option for commodity programs—as well as implementation of the Wetlands Reserve Program. County office staff years would rise to a total of 16,957, while Federal staff years would remain at the fiscal year 1991 level of 3,365.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you may have.

STATEMENT OF DUANE ACKER

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to meet with you to discuss the work of the Foreign Agricultural Service (FAS) and to present the budget request for fiscal year 1992. I will focus my remarks on the role of the Foreign Agricultural Service in improving U.S. export opportunities through multilateral and bilateral trade negotiations, market development, and market information. The General Sales Manager, who is also here today, will cover the export credit guarantee, food aid, and export promotion programs.

BUDGET REQUEST

Our fiscal year 1992 budget proposes a funding level of $109.5 million, a net increase of $4.0 million above the fiscal year 1991 level. This includes $1.8 million to meet higher overseas operating costs resulting from anticipated wage and price increases. This increase is necessary to maintain our 75 overseas offices at current levels and reflects the general weakening of the dollar in Europe and major Asia markets.

For fiscal year 1992, the budget proposes an increase of $1.6 million to fund the FAS share of Augmentation 2000. Augmentation 2000 is a joint hardware acquisition program with the Office of the General Sales Manager (OGSM), designed to

meet our administrative ADP requirements through the year 2000. Existing ADP equipment is reaching the end of its systems life and must be replaced and existing central processing unit (CPU) capacity is exhausted. These two factors result in recurring systems failure. As FAS and the OGSM rely heavily on automated support to meet our assigned missions, systems reliability is essential.

Augmentation 2000 will replace all existing non-intelligent terminals with intelligent workstations and PC's which will allow the migration of word processing, and other administrative processing functions, to the desktop and out of the CPU. This will provide for additional computing power, massive increases in storage capacity and will free up a larger share of the augmented mainframe cluster for heavy-duty data processing applications.

The budget also proposes $1.1 million for higher salary costs resulting from the 1991 and 1992 pay raises.

Offsetting these increases is a decrease of $500,000 for the Ameri-Flora '92 Exposition, for which funding was made available in fiscal year 1991 on a one-time basis.

EXPORT OUTLOOK

This year U.S. agricultural exporters will face competitive challenges as tough as ever. Signs suggest moderate declines in the overall value and volume of U.S. agricultural exports, compared with fiscal 1990.

A number of events have converged to weaken markets for several commodity sectors this year. We're facing record world crops of wheat, oilseeds, and rice. The global cotton harvest is expected to be the second largest ever. The war in the Persian Gulf has not only meant the loss of sales to Middle Eastern countries, but it has also increased energy costs and that dims prospects for world economic growth. A major unknown continues to be the outcome of the Uruguay Round of Multilateral Trade Negotiations (MTN) and possible trade reactions and policy responses to success or failure in these negotiations.

Hopefully, when we look back, 1991 will represent only a pause in a gradual upward trend for U.S. agricultural exports. To help U.S. agriculture achieve that outcome, the Foreign Agricultural Service and sister agencies have been working diligently to assure that potential export growth is not hampered by protectionist trade barriers, unfair trade practices, and trade-distorting production and export subsidies.

TRADE ISSUES

The MTN remains a top U.S. trade priority, particularly for agriculture, despite disappointment of not reaching an agreement in December.

The U.S. goal for the Uruguay Round remains constant: A world trading environment of open markets which will give U.S. agriculture a fair chance to compete for them. The U.S. proposal for comprehensive reform largely defined the course of the agriculture negotiations over the past 18 months. Our proposal addressed border measures, internal support, export subsidies, and sanitary and phytosanitary measures and regulations. Though the majority of other participants followed our lead, key trading partners—the European Community, Japan, and Korea—held up the process of arriving at a satisfactory conclusion to the Round.

FAS' role in the Uruguay Round negotiations has been to provide the Secretary of Agriculture and the U.S. Trade Representative with the policy and statistical analyses necessary to evaluate the proposals before the GATT and to assist our negotiators in every way possible to bring the Uruguay Round to a successful conclusion. FAS also has the responsibility for making the necessary linkages with the private sector to gain its insight and input.

Regardless of the outcome of the Uruguay Round, the GATT debate over agriculture already has had a profound impact on agricultural policies worldwide. A number of nations have taken steps to liberalize their own policies and programs, and others, even the EC, have initiated internal discussion over reform of domestic policies. We must keep in mind how important the GATT is—even apart from the current Round of negotiations—as a forum for resolving trade disputes and for negotiating major policy issues.

Within the past year a number of countries have joined the GATT, others have expressed interest, and the Soviet Union now has observer status. This is important for U.S. trade. For example, Venezuela's GATT accession package contained a number of concessions important for U.S. agricultural exporters. It included the scheduled elimination of import prohibitions and licensing requirements. We expect that U.S. exports to Venezuela, especially horticultural products, could increase significantly as a result.

In addition to multilateral negotiations, FAS policy experts and Agricultural Counselors overseas continue to work on a bilateral basis to reduce barriers to U.S. agricultural exports and to encourage expanded trade. I would like to highlight a few examples of these efforts.

ASIA

Asia is the leading agricultural market for the United States; Japan, Korea and Taiwan accounted for almost one-third of our farm exports in fiscal year 1990. We will continue to place a high priority on market access and market development efforts in this region.

The past year has seen progress in resolving agricultural trade issues with a number of key Asian trading partners. FAS will build upon this progress by tackling the many remaining access issues in order to tap the vast potential of the region. Some examples of progress to date: the U.S.-Japan agreement on market access for processed wood products, signed in April, 1990, eliminated restrictive product standards, onerous certification procedures, and building codes which prohibited the use of wood in Japanese construction. In the agreement, Japan also pledged to reduce tariffs on processed wood products.

We are generally pleased with the implementation of the 1988 U.S.-Japan Beef and Citrus Agreement. In April of this year, the initial implementation phase of the agreement will be completed, with Japan eliminating its quotas on imports of beef and fresh oranges. U.S. sales to Japan of beef and orange juice, in particular, have increased dramatically as a result of the Agreement. Despite this success, we remain troubled by continued high retail beef prices and stocks in Japan as well as by Japan's high tariffs for both beef and oranges. We will be carefully monitoring Japan's imports of these products to ensure exports continue to grow.

Two important U.S.-Japan trade committees were established last year. The Japan/United States Experts Group on Import Procedures—an outgrowth of the Structural Impediments Initiative (SII) talks—has been successful in speeding customs clearance in Japan. This should help cut down on the costs and delays to trade in fresh produce and other agricultural products that were the result of Japan's slow clearance and overzealous inspection and documentation requirements. Quarantine processing for live animal imports will also be improved.

The U.S.-Japan Food Safety Committee facilitates resolution of food safety problems, such as standards for use of agricultural chemicals. The committee also facilitates approval of new food additives for use in processed food exports to Japan. Several new additives were approved in January, with benefits for U.S. product sales.

Last April, the United States and Korea signed an agreement which has started to liberalize Korea's beef import regime. As a result of U.S. efforts to open this market, U.S. beef exports expanded sharply and exceeded $100 million in 1990. Korea is now our third largest foreign beef market.

Korea also agreed to eliminate import restrictions on more than 270 agricultural and fish products, or to bring those restrictions into conformity with GATT requirements by 1997. The phase-out or reduction begins in 1992. Last May, U.S. negotiators persuaded Korea not to implement labeling regulations which would have required all imported food to have original labels affixed in Korean. The cost of such would have seriously restricted the ability of U.S. products to compete in the Korean market.

FAS played a key role in bilateral negotiations with Taiwan that led to Taiwan removing its quantitative limitations on imports of U.S. turkey parts; liberalized licensing for whole duck imports; and amended its phytosanitary requirements for imported turkey meat. All of these steps should greatly improve U.S. market access.

Also as a result of U.S. efforts, Taiwan agreed not to implement a proposal that would have limited imports of U.S. dry beans and peas which are now valued at about $2 million a year.

EUROPEAN COMMUNITY

We continue to work on a number of trade issues with the European Community (EC). One serious concern is the EC's third country meat directive. The EC has removed almost all U.S. slaughter plants from the list of plants eligible to ship meat to the EC. As a result, the U.S. meat industry filed a Section 301 Petition, which was accepted by the U.S. Trade Representative in January, 1991. To date, no agreement has been reached on relistment, though progress is being made in bilateral discussions.

The EC delisted U.S. plants simply because the U.S. inspection system is not identical to the EC system. The United States believes the issue should be whether the inspection system produces a safe and wholesome product. We are monitoring

EC actions closely and hope that the issue can be resolved even before the Section 301 case goes to a GATT panel in June.

In December, the EC agreed to extend for one year the U.S./EC Enlargement Agreement, which was reached when Spain and Portugal joined the EC in 1986. Although we were pleased that the agreement was extended, we will need to resume negotiations with the EC by June in order to achieve a final and mutually satisfactory understanding before September 30, 1991. Final or permanent resolution of this issue will avoid the further annual extensions and the possibility of retaliation. It also represents an important precedent for future EC enlargement.

We also continue to push the EC to abide by its commitment to implement the 1989 GATT panel ruling on EC oilseed production and processing subsidies by the beginning of the 1991 crop year. The EC should open its oilseed sector to market forces. If the EC fails to make the necessary changes in its oilseed regime to comply with the GATT panel findings, the United States would need to consider possible countermeasures.

The EC has undertaken a complex legislative initiative, commonly referred to as "EC 1992", to create a single internal market. While the United States supports the EC efforts, we are monitoring the EC 1992 process closely to ensure that the Community does not use this exercise to raise new barriers against third countries. We are participating in and supporting a U.S.-EC Working Group which is examining all measures relating to EC 1992. We are trying to improve coordination with the EC to prevent any trade disruptions that could arise during implementation of the EC 1992 legislation, and to help ensure that U.S. agricultural interests understand and are prepared for the changes that will be made.

LATIN AMERICA

The President's new Enterprise for the Americas Initiative encompasses trade, investment, and debt programs. The trade initiative has a long-term goal of a comprehensive Free Trade Agreement, which would ultimately encompass the entire Western Hemisphere.

The current Free Trade Agreement (FTA) with Canada and negotiation of a North American FTA with Canada and Mexico are steps toward that goal. Provided that Congress does not object, formal negotiations with Mexico could begin sometime this Spring. The Foreign Agricultural Service is putting in place a structure to prepare for the negotiations and has begun identifying issues and exchanging information and data with the appropriate Mexican and Canadian officials. In addition, FAS and ERS are carrying out a study of the impact a North American FTA will have on the U.S. agricultural sector.

The Enterprise for the Americas Initiative also invites other countries to negotiate framework agreements with the United States. These agreements provide a forum for discussing trade and investment issues and will serve as a stepping stone for nations wishing to negotiate an FTA with the United States. Bilateral framework agreements have been signed with Bolivia, Ecuador, Colombia, Chile, Costa Rica, and Honduras. Peru, Nicaragua, El Salvador, Panama, Guatemala, Jamaica, and Venezuela are currently negotiating agreements; and Brazil, Argentina, Paraguay and Uruguay are working together on a framework agreement.

The United States is also prepared to work with Latin American countries to help address their specific trade concerns in the Uruguay Round. A successful conclusion to the Round remains the most effective way of integrating these nations into the global trading system and promoting long-term economic growth.

CENTRAL AND EASTERN EUROPE

In response to the dramatic developments in central and eastern Europe, we established the Eastern Europe and Soviet Secretariat in FAS to serve in an overall coordination capacity within the Department. As a repository for information on all USDA activities in the region, the Secretariat works with all interested USDA offices to develop and maintain a USDA strategy for the region and its countries. Additionally, the Secretariat works with other U.S. Government agencies on East European affairs, particularly the government-wide coordination effort headed by the Deputy Secretary of State, and provides a point of contact for private agricultural and agribusiness organizations and individuals with an interest in Eastern Europe.

In addition to the Secretariat meeting these new demands in the region, we will continue to be an active participant in the Washington-based interagency policy formulation process. Resultant policies will foster bilateral trade "normalization" with the emerging democracies and will allow negotiating trade and investment agreements with each country so that Most-Favored-Nation status may be granted and commercial trade facilitated. A longer term goal is to help create conditions which

foster the growth of U.S. agricultural exports, as these emerging economies become more market oriented.

To better represent U.S. agriculture, undertake additional FAS responsibilities imposed by the 1990 FACT Act, and to take advantage of market opportunities as they occur, we are moving to expand the FAS presence is this area. Specifically, we have initiated action to open an office in Bulgaria, which will also cover Romania, add an additional position in Czechoslovakia, request the second American FAS position in Poland be made permanent and improve coverage of Yugoslavia and Hungary. Subject to approvals by Chiefs of Missions, total permanent staff in the region will increase by five by the end of fiscal year 1992.

AFRICA AND THE MIDDLE EAST

We continue to monitor emerging democracies in Africa as well. The economic reform process in many of the centrally planned countries of Europe has also led to new thinking by leaders in Africa. African nations have long attempted to find the appropriate path for economic growth and development in response to numerous international constraints, internal strife, and their colonial legacies. Ghana, Tanzania, and, more recently, Mozambique and Zimbabwe have adopted economic reforms which reflect new attitudes towards the role of the private sector and market forces in their national economics. These positive changes could in the long run, translate into increased demand for U.S. farm products.

I must also mention increased demands that will be placed on FAS in the Middle East in a post-Persian Gulf conflict scenario. There will be radical restructuring of import regimes and trade policies, as well as a strong need for technical and food assistance. The Gulf Cooperation Council (GCC), including Saudi Arabia, Kuwait, Oman, Qatar, the United Arab Emirates, and Bahrain, will no doubt become more of an economic entity in the region. We will closely watch GCC trade policies, especially as they affect ways in which U.S. agricultural products may be marketed to the region.

MARKET DEVELOPMENT

Because exports are so critical to the well-being of U.S. agriculture, market development remains a vital long-term effort. FAS has recently improved its management of market development programs, emphasizing the applicant organization's ability to plan and manage the program.

We continuously review with participants the status of their programs, focusing on the prospects for success of specific efforts. During the review process, activities may be revised and adjusted, strategies reconsidered, and opportunities offering greater potential export returns encouraged.

FAS has begun updating its computer software to better control internal administrative procedures, and has issued stronger and more specific participation instructions. We have improved and formalized the documentation of our program allocation procedures and activity plan approvals. We are actively investigating methodologies to isolate and measure the impact of promotion programs on foreign consumption or imports of U.S. commodities. All participant and third party records, supporting documentation, and contracts related to program participation are subject to review and audit at any time.

Mandated by the Food Security Act of 1985, the Targeted Export Assistance (TEA) program increased both the scope of FAS market development activities and the number of organizations we can work with. The TEA program's main objective was to assist exports of products affected by unfair foreign trade practices. The 1990 FACT Act replaced the TEA program with the new Market Promotion Program (MPP) which has broader objectives than the TEA. It is intended not only to assist exporters adversely affected by unfair foreign trade practices, but also to promote and maintain overseas markets for U.S. farm products. The effectiveness of TEA and the MPP will be highlighted in the General Sales Manager's testimony.

Our Agricultural Trade Offices overseas have proven valuable in facilitating U.S. exporters' ability to respond to changing market opportunities. The trade offices provide administrative oversight, guidance, and perspective on the effectiveness of our market development efforts in the major markets for U.S. agricultural exports. They help assure that our market development funds are being spent wisely, and they also provide overseas facilities and services for U.S. exporters.

Trade shows continue to be important in promoting U.S. food products abroad. Over 600 U.S. exhibitors reported making more than 5,000 promising trade contacts at FAS-sponsored trade shows during fiscal year 1990. In 1991, FAS is organizing high-value food product exhibitions at five shows and is lending crucial support to

our state regional cooperators, who are putting on the first U.S. food and beverage trade show in Mexico City.

Last year, FAS issued its first three-year trade show calendar. The calendar identifies all of the major international food and beverage trade shows through 1993, and has proven to be a valuable tool for both FAS and the private trade in planning future show participation.

During fiscal year 1990, FAS put a new look on our long-standing program of trade services to U.S. agricultural exporters. The Agricultural Information Marketing Services, or AIMS program, was renamed AgExport Connections. A more user-friendly public information packet, explaining three basic services—Trade Leads, Buyer Alert, and Foreign Buyers Lists, was developed by drawing on advice from focus groups throughout the United States. In addition to explaining basic trade services, the AgExport Connections information packet explains how the public can obtain information regarding export regulations, certifications, licenses, and other technical requirements.

Since October 1990, over 5,000 of the new information packets have been distributed to trade associations, State Departments of Agriculture, U.S. Department of Commerce field offices, and current subscribers to FAS export trade services.

AGRICULTURAL COUNSELORS, ATTACHES AND TRADE OFFICERS

A lean corps of Agricultural Counselors, Attaches and Trade Officers oversee a network of 75 offices in Embassies and Consulates covering 110 countries around the world. They are the eyes, ears, and voices of the Foreign Agricultural Service overseas, supporting and implementing Department policies and pursuing U.S. Government objectives.

The Agency has made staff reallocations to keep FAS in step with and responsive to the many challenges faced over the past year, both in carrying out our growing responsibilities and in responding to opportunities brought about by the changing face of the world. FAS has added positions in Panama, to meet obligations accruing from a change in government; in Geneva, to support Uruguay Round initiatives; and in Poland to carry out Congressional mandates under the 1990 FACT Act and the Support for East European Democracies (SEED) Act.

FAS has undertaken an extensive review of its worldwide staffing requirements. In addition to plans for Eastern Europe, which I mentioned earlier, plans include new agricultural trade offices in Japan and Mexico by fiscal 1992. We are also undertaking staffing adjustments in other regions of the world—in Europe, Africa and Asia—to ensure that FAS remains capable of carrying out its mission.

MARKET INFORMATION

The globalization of the market for U.S. agricultural products has put a premium on FAS' task of reporting trade and agricultural conditions in other countries, analyzing these data and interpreting the changes for the use of farmers, business, government, and the general public.

The nucleus of our agricultural information system remains the agricultural counselors and attaches overseas. FAS has supplemented the information gathered by counselors and attaches with a remote sensing capability that provides timely data from areas not always easily accessible to our personnel. While overseas officers and remote sensing capabilities are the nucleus of this system, it Is the cadre of FAS commodity analysts and trade experts in Washington who compile and analyze this information that make it useful to decisionmakers.

Our work aimed at gathering, analyzing, and disseminating global agricultural market data and intelligence is really the linchpin of what FAS does as an agency. We cannot make effective trade policy, market development, or program spending decisions without a sound analytical base.

While we work closely with our colleagues in USDA's Economic Research Service and the World Agricultural Outlook Board in carrying out the Department's global commodity analysis and forecasting, FAS is the agency responsible for developing and maintaining USDA's global agricultural production, supply and distribution databases. This is an often overlooked, yet a vital and resource-intensive, aspect of FAS' work. Without it, the more visible and highlighted programs carried out by the agency would be far less effective.

TRADE ASSISTANCE

The FAS Trade Assistance and Planning Office (TAPO) is another example of FAS outreach efforts. This office serves as a contact point for agricultural exporters and producers who might have been injured by unfair foreign trade practices.

In 1990, TAPO provided one-on-one export counseling and assistance in responding to more than 1,000 requests—five times more than in the previous year—and sent out more than 2,000 pieces of information on exporting.

Through TAPO, FAS has strengthened its outreach efforts by making presentations at agricultural trade conferences and seminars, establishing liaison with the Directors of the International Trade Development Centers for Agriculture, and assisting the Extension Service in disseminating export information.

FOOD SAFETY AND TECHNICAL SERVICES OFFICE

In response to the growing interest in food safety issues in general and the need to improve our overall ability to respond to food safety concerns that could affect U.S. exports, the Foreign Agricultural Service recently established an Office of Food Safety and Technical Services.

The office handles inquiries related to foreign standards, technical requirements, and sanitary and phytosanitary regulations as they apply to food products imported from the United States. The office also coordinates activities of the interagency International Food Safety Task Force, which works to increase communication and cooperation among federal government regulatory and trade personnel. The task force has been instrumental in helping the U.S. Government address and resolve trade-related food safety concerns.

FACT ACT

Before concluding, Mr. Chairman, I would like to report that FAS is working diligently to implement the many tasks assigned to it in the 1990 FACT Act. We have work plans for all areas in which FAS is the lead agency, are well along in implementing these plans, and we are fully supporting other agencies in their FACT Act efforts.

This concludes my statement, Mr. Chairman. I will be glad to answer any questions.

STATEMENT OF F. PAUL DICKERSON

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to discuss the programs of the Office of the General Sales Manager and to present the fiscal year 1992 budget request to support those programs.

Having proven their worth in the past, USDA's export programs remain even more important in today's complex world, one marked by the implementation of a new farm bill, the slow pace of the GATT Uruguay Round, the vast changes underway in Eastern Europe, and the uncertainties prevailing in the Mideast.

Mr. Chairman, while those of us who have worked for the American farmer over the years know and appreciate the difficult global situation that U.S. agriculture must compete in, the events of the last several months have reminded all of us exactly how dynamic this environment is.

For example, one country has changed from a major customer of American farmers to an adversary of the United States and the international community. International trade negotiations look bright one moment and bleak the next. And, as always, one watches the weather around the world to see what nature has in store for the world's farmers. To function in this environment, we need both responsive programs and adequate funding and staff.

BUDGET REQUEST FOR FISCAL YEAR 1992

Our fiscal 1992 budget request reflects a balance between the continuing need for programs to help U.S. agriculture maintain its competitive position in the world marketplace and the need to constrain the federal budget. We are seeking resources that we believe will be sufficient to achieve our goals.

For fiscal 1992 we plan to make available a total of $5.7 billion in our commercial credit programs which include GSM–102 short-term credit guarantees, GSM–103 intermediate-term credit guarantees and, possibly, support for financing facilities. This will be composed of $5 billion for GSM–102 and $500 million for GSM–103. In addition we plan to use $200 million for emerging democracies through either GSM–102, GSM–103, or facility financing as called for in the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT Act).

We also are seeking funds to support an overall program level of $1.4 billion for the Public Law 480 program. We expect this level to provide an estimated 6 million tons of commodities, although commodity and shipping prices will determine the ac-

tual tonnage shipped. While this is a modest reduction from the current fiscal year, we believe it will allow us to fully meet the goals of Public Law 480. The proposed level for the Title I concessional credit program is $464 million and for the Title III government-to-government grant program, $309 million. These levels comply with the 1990 FACT Act provision establishing minimum percentages for each of these bilateral food aid programs.

The program level for the Title II humanitarian grant activity is $627 million which will both meet the total tonnage requirement and provide the cash transfer to private voluntary agencies required by the 1990 FACT Act.

For the Office of the General Sales Manager, our fiscal year 1992 budget proposes a funding level of $9.1 million, a net increase of $1.3 million above the fiscal year 1991 level. This includes $445,000 to meet higher salary costs resulting from the 1991 and 1992 pay raises, and $855,000 to fund the OGSM share of Augmentation 2000. Augmentation 2000 is a joint hardware acquisition program with the Foreign Agricultural Service designed to meet our administrative ADP requirements to the year 2000.

Building on the market-oriented Food Security Act of 1985, the new FACT Act of 1990, continues to give us the needed export tools to support American farmers. This legislation maintains our ability to compete in the world market by providing an array of export authorities that can complement each other to enhance our competitiveness.

The Export Enhancement Program, the Market Promotion Program (successor to the Targeted Export Assistance Program or TEA), the Export Credit Guarantee Programs (both GSM–102 and GSM–103), the new more market development-oriented Public Law 480 Title I program, Commodity Credit Corporation (CCC) sales—we are using all of these to achieve our common export goals.

In my role as General Sales Manager, I use all of these tools to sell U.S. farm products as I travel around the world to meet and know our customers, who have many needs both in terms of product and financial needs.

I would like to briefly describe how the export programs for which I am directly responsible are helping U.S. agricultural exports.

CREDIT GUARANTEE PROGRAMS

The GSM–102 Export Credit Guarantee Program is our largest single export tool. This short-term guarantee program is currently established at $5 billion, and we are planning the 1992 program to continue at $5 billion.

The GSM–102 Export Credit Guarantee program helps U.S. exporters by facilitating extension of private—not public—commercial credit with repayment periods of up to 3 years. By providing a CCC guarantee on 98 percent of the private financing, this program encourages U.S. lenders (typically commercial banks) to extend credit which is used by overseas customers to pay U.S. exporters.

This program supports the export of all U.S. agricultural commodities to a large spectrum of countries where an acceptable financial risk can be determined. The program seeks to achieve two goals—expanding U.S. agricultural exports and minimizing budget costs.

During fiscal 1990, we announced guarantees for $4.6 billion and approved sales for almost $4 billion under the GSM–102 program. During the year, GSM–102 continued to be a major export tool in such countries as Mexico, Algeria, South Korea, and Egypt.

In Mexico, 13 commodities were included in registered sales of almost $1.5 billion. Exports of U.S. feed grains were valued at $818 million, oilseeds at $238 million, pulses at $92 million, and protein meals at $81 million. In addition to promoting the export of U.S. commodities to Mexico, the program also has encouraged private sector customers in Mexico to purchase U.S. commodities.

The program also supported the export of U.S. agricultural commodities to Algeria—again 13 commodities for total sales of almost $650 million. The major items sold to this market were wheat ($204 million), feed grains ($196 million), and wood products ($76 million). This program built on the fiscal 1989 efforts to help the U.S. forest products industry expand in the Algerian solid wood products market.

Elsewhere, Korea, with purchases of $529 million, continued to be a major buyer of U.S. commodities, especially cotton and wheat, as did Egypt with purchases of $198 million of wheat.

Though we are not yet half way through the current fiscal year, we have already announced over $4 billion of GSM–102 guarantee programs. This includes not only $1.2 billion for Mexico and $1 billion for the Soviet Union; it also includes programs focused on emerging markets such as Ecuador, Hungary, Senegal, and Trinidad and Tobago.

The GSM–103 Intermediate Credit Guarantee Program continues at an annual level of $500 million. This program is especially well-suited to support U.S. exports to developing countries that may require credit over more than 3 years but do not need concessional "food aid" credit terms of 10 to 30 years as authorized by the 1990 FACT Act for Title I of Public Law 480.

During fiscal 1990—the fifth year of this program—sales of $332 million were registered under announced guarantees of $468 million. Algeria was the largest participant with sales registered at $110 million, mostly for wheat and protein meals. Other major participants include Jordan, Morocco, Sri Lanka and Tunisia.

Thus far in the current fiscal year, almost $425 million has been announced under this program. Algeria, Morocco, Sri Lanka, and Tunisia are major participants.

EMERGING DEMOCRACIES

Finally, we are planning to use $200 million of credit guarantees, as provided by the FACT Act, to support exports to emerging democracies. Depending on which program best suits the marketing opportunities, GSM–102 or GSM–103 authority will be used. We also plan to consider the facility financing authority provided in the FACT Act for these countries.

RISK ANALYSIS

Mr. Chairman, I would like to take a moment to tell the members of the Subcommittee about our efforts in the area of risk analysis for the export guarantee programs. We recognize that it is imperative for the U.S. Government to take full account of the financial risk it is creating for the nation's taxpayers.

I noted in my testimony last year that we were undertaking to improve this aspect of our work and I am extremely pleased with the results. I am confident that our efforts will allow us to fully comply with the spirit of the FACT Act provision which highlights the need to minimize financial risks to the CCC while using the programs to expand exports.

Our objective for the credit guarantee programs is to maximize the export and market development benefits while minimizing the financial risks. We do so by extending the programs, within reasonable expectations, only to recipients which we believe can adequately service these CCC-guaranteed debts. To meet this challenge, the CCC has developed an improved decision-making system that is based on improved country risk, foreign bank risk, and market development information.

Our new system does two things: first, it assures that any risks of non-repayment, as well as all potential marketing benefits, receive full consideration by GSM program managers, including myself and the President of the CCC. Second, it provides more and greatly improved information on both the risks and benefits for each country program considered.

Briefly, there are three stages in this process. In the first stage, country risk analyses are developed using outside information sources such as the World Bank, the International Monetary Fund, the Economist Intelligence Unit, Euromoney, Institutional Investor, political risk assessment services, and various U.S. Government sources. Both quantitative and qualitative assessments are used in determining the risk involved in a proposed program.

We also are obtaining additional financial information about foreign banks that may participate in the program. Therefore, we are assessing both the overall country risk as well as more specific foreign bank risk. Finally, information on market opportunities as well as the competition is assessed.

In the second stage, this information is presented to a formal committee of program managers from both the Foreign Agriculture Service and the Agricultural Stabilization and Conservation Service. The committee is chaired by the Assistant General Sales Manager who also serves as the Assistant Administrator of FAS for Export Credits. In the final stage, officers of the CCC, including myself, are involved in reviewing and approving credit guarantee programs.

I am confident this improved analysis will enable us to better manage the credit guarantee programs to enhance exports while fully protecting the taxpayer from undue risk.

PUBLIC LAW 480

The 1990 FACT Act made substantial revisions in Public Law 480 program authorities. A major change was the creation of a new Title III authority to establish a direct government-to-government grant program for least developed countries. This new program is being created from resources formerly devoted to Title I of Public Law 480 which authorizes a long-term concessional credit program.

Now there are two government-to-government food aid programs: Title I long-term concessional credit to be managed by USDA, primarily the Office of the General Sales Manager, and Title III grant programs to be managed by the Agency for International Development (AID). Our budget request for fiscal year 1992 reflects this new structure with needed resources identified for both Title I and Title III.

The Title II humanitarian donation program, which is implemented primarily through private voluntary agencies and the World Food Program, was maintained with little change in the FACT Act. As in the past, AID will manage this program.

The new FACT Act also includes new debt relief provisions for Public Law 480 Title I credits. For fiscal 1992, we are not currently proposing any debt relief under this new authority, but anticipate it will be used at some time in the future. I should also like to note that under the authority of the Enterprise for the Americas Initiative (EAI) contained in the FACT Act, a very modest proposed reduction of Public Law 480 Title I debt is included in the President's international affairs budget as a separate item for this initiative. The EAI is a Presidential initiative designed to build a new partnership and encourage economic and investment reforms in Latin America and the Caribbean.

In addition to the changed structure of the Public Law 480 program, I should point out that the Omnibus Budget Reconciliation Act of 1990 passed by Congress last fall also has affected our budget structure for fiscal 1992. Under this new credit reform legislation, both budget authority and outlay estimates for Public Law 480 Title I credit now reflect the estimated lifetime cost to the U.S. Government for the program.

Building on the new structure of Public Law 480, USDA will increase its efforts to maximize the market development benefits from Title I programs and use this concessional credit tool to complement our commercial export tools.

We plan to continue to provide Title I credit to countries which are important markets for U.S. farmers such as Egypt, Morocco, Jamaica, Costa Rica, and Sri Lanka. A program of $464 million would be supported by our budget request for fiscal 1992. We expect that wheat, rice, and feed grains will continue to be the major commodities provided under Title I credit agreements, while we will continue to seek market opportunities for such non-traditional commodities as wood.

Under the new Title III government-to-government grant authority, our budget request will support a program of $309 million, which AID will manage. These resources will provide needed agricultural commodities to such least developed countries as Bangladesh, Bolivia, Haiti, Peru, Mozambique, Tanzania, and Uganda. We expect wheat to continue to be the major commodity provided under Title III programs.

The proposed budget for the Title II humanitarian grant program is $627 million which will provide an estimated 1.95 million tons of food plus a cash grant of $10 million for the private voluntary agencies.

Expected major beneficiaries in this Title II program will be needy people in India, Lebanon, Philippines, Bolivia, Haiti, Burkina Faso, Malawi, and Ethiopia. Title II food also will support the U.S. pledge to the World Food Program, which is placed at $300 million for the 1991/92 biennium. As in the past, processed or high-value commodities will be provided under Title II authority to feeding programs in all parts of the world.

Food assistance provided under all titles of Public Law 480 continues to meet the U.S. commitment to the Food Aid Convention. Currently this commitment is to provide 4.47 million tons of food grains annually. The United States will again exceed this commitment level in fiscal 1992.

OTHER FOOD AID AUTHORITIES

Although we do not request budget support for other food aid programs, I want to briefly summarize program activities for the Subcommittee. First, under the authority of Section 416(b) of the Agriculture Act of 1949, we continue to have the authority to donate excess CCC stocks to help needy people overseas. In recent years, up to 2 million tons of grains plus quantities of dairy products have been donated under this authority for activities in countries such as Mexico, Honduras, Ecuador, Poland, Bulgaria, Rumania, and Tunisia. If commodities are available in fiscal 1992, USDA will continue to use the Section 416(b) authority.

In addition to the Public Law 480 and Section 416(b) food aid authorities, a third program, Food for Progress, was authorized by the Food Security Act of 1985, and extended by the FACT Act. Food for Progress legislation creates a free-standing program which can be either credit or grant to provide support to emerging democracies. Resources from Public Law 480 Title I, Section 416(b), or CCC can be used in this program.

EXPORT ENHANCEMENT PROGRAM

We are continuing to use the Export Enhancement Program (EEP) to U.S. agriculture more competitive in world markets by offsetting the adverse efforts of unfair trade practices or subsidies.

The CCC budget estimates assume that as much as $1.2 billion of CCC commodities will be made available as EEP bonuses during fiscal year 1992. These CCC-owned commodities are made available as an EEP bonus to enable U.S. exporters to be price competitive in targeted overseas markets. As in the past, this export program is designed to maintain our competitive position in overseas markets; to challenge unfair trading practices of competitors; and to encourage trading partners to negotiate seriously on needed reform of world agricultural trade.

In carrying out this program we continue to use three primary guidelines established by the President's Economic Policy Council to select proposed sales initiatives: (1) All EEP initiatives must demonstrate their potential to develop, expand, or maintain U.S. market share; (2) every EEP proposal must further U.S. negotiating strategy to counter subsidies and other unfair trade practices by displacing competitors' subsidized exports in targeted countries; and (3) individual EEP initiatives must not have more than a minimal effect on non-subsidizing agricultural exporters.

Finally, we seek to implement this program so that minimum resources are used to achieve the expected benefits.

Since EEP's inception in 1985 through January 31, 1991, some 112 initiatives had been announced for 75 countries. Over 95 million tons of commodities have been sold, including roughly 87 million tons of wheat and wheat flour, and 9 million tons of barley, as well as significant quantities of barley malt, rice, and semolina. In addition, the program has supported the export of frozen poultry, table eggs, vegetable oil, sorghum, poultry feed, and dairy cattle. Sales totaling nearly $11 billion had taken place by the end of fiscal 1990.

In the fiercely competitive world market, EEP is an exceedingly important tool to maintain the U.S. share of markets where unfair trade practices prevail and for achieving our export and trade policy goals. For instance, over 50 percent of all U.S. wheat and wheat flour exports in fiscal 1990 were shipped under EEP initiatives. U.S. exports are clearly larger as a result of the EEP, and EEP initiatives have cut into the European Community's export sales.

It is for this reason that we are proposing that the $425 million limitation on EEP bonus awards be removed. We urgently need this action if the program is to continue through the remainder of the fiscal year. We are currently assuming a fiscal year 1991 EEP level of $900 million if this limitation is removed.

MARKET PROMOTION PROGRAM

The 1990 FACT Act has replaced the Targeted Export Assistance Program (TEA) with the Market Promotion Program (MPP) and broadened its scope. As with TEA, MPP encourages the development, maintenance, and expansion of commercial export markets, with priority consideration continuing to be given to those commodities injured by unfair trade practices. We work with both private U.S. firms and nonprofit trade associations in joint industry-government projects overseas under the MPP.

TEA allocations totaling $200 million in fiscal 1990 were used to conduct promotional activities for 47 commodities in more than 100 foreign markets. The MPP mandated program level for fiscal 1991 is currently $200 million for market promotions; USDA had allocated this amount by January 15.

The Office of the General Sales Manager will continue to play an active role with FAS in operating the MPP program, and together, our efforts are paying off. A few examples will illustrate the effectiveness of this program.

In Japan, a TEA supported activity helped move record amounts of Sunkist naval oranges to Japanese consumers. Aggressive market promotions also sharply boosted sales of orange juice concentrates—despite rising U.S. prices and intense competition from Brazilian shippers.

The U.S. Meat Export Federation (MEF), a TEA participant, conducted a very successful month-long breakfast campaign in 50 Hong Kong fast food outlets, and another month-long restaurant promotion, featuring U.S. beef, in Singapore. The federation also used TEA resources to target Japanese consumers and members of the trade in more than 1,000 promotions highlighting the safety, taste, consistency, availability, and nutritional content of U.S. meats and products.

Following a sharp market decline in 1989, per capita consumption of Alaska's canned salmon in the United Kingdom jumped 21 percent in the 1990 marketing year, due in part to a series of promotions by a TEA participant, the Alaska Seafood Marketing Institute (ASMI).

EXPORT SALES AND RELATED PROGRAMS

The Office of the General Sales Manager continues to use the authority contained in the CCC Charter Act and Section 407 of the Agricultural Act of 1949 to sell CCC-owned commodities for export.

Direct sales volume in fiscal 1990 totaled slightly more than 4,700 tons of butter and butter oil, with a value of $7 million. Over the past 5 years, export sales of more than 560,000 tons of CCC-owned dairy products were valued at $522 million.

DAIRY EXPORT INCENTIVE PROGRAM

As mandated by the 1985 Food Security Act, the Dairy Export Incentive Program (DEIP) provides bonuses on a bid basis to exporters of dairy products, enabling them to compete in targeted markets. Since its inception, DEIP has supported exports of almost 16,000 tons of dairy products to 18 countries. The 1990 FACT Act reauthorizes DEIP, and the 1991 program will be operational shortly.

OILSEED ASSISTANCE PROGRAMS

The Sunflowerseed Oil Assistance Program (SOAP) and the Cottonseed Oil Assistance Program (COAP) promote the export of these commodities by paying bonuses to U.S. exporters in the form of sunflowerseed or cottonseed oil for shipments to targeted markets.

In fiscal years 1989 and 1990, a total of 81,300 tons of sunflowerseed oil were shipped to Algeria and Egypt. To achieve these shipments, almost 21,000 tons of bonus oil were supplied to the exporters.

These bonus programs have been reauthorized in the FACT Act. In the current fiscal year, initiatives for sunflowerseed oil and cottonseed oil to Egypt are currently active and others are being considered. Sales approved to date in fiscal 1991 under the two programs total 44,000 tons.

Mr. Chairman, this concludes my formal statement. I will be glad to respond to any questions or concerns of the members of the Subcommittee.

STATEMENT OF JAMES MOSELEY

Senator BURDICK. I think we will hear from Mr. Moseley before we start the questioning.

Mr. Moseley.

Mr. MOSELEY. Thank you, Mr. Chairman, and members of the committee. I am pleased to be here today in support of the 1992 budget request for the Department's Soil Conservation Service. I have with me Bill Richards who recently joined the USDA team as Chief of SCS.

We are both challenged by the leadership opportunities before us as we participate with American farmers and ranchers in implementing the most comprehensive and environmentally enhancing conservation strategy in our Nation's history. We appreciate the strong support that exists——

Senator BURDICK. Would you bring the mike a little closer to you?

Mr. MOSELEY. We appreciate the strong support that exists in the Congress, and particularly from members of this committee, as we move forward to implement the conservation provisions of the law. The budget request before us today is driven by our commitment to the long-term objectives of maintaining a strong, productive agriculture, and at the same time maintaining and enhancing our natural resource base. These are not conflicting goals.

Production of adequate supplies of food and fiber to meet global demands can be accomplished in an environmentally benign way, as all of us in society clearly expect. The USDA is responding to this expectation using all the tools at our disposal, basic research and technology development, education, technical assistance, and

financial assistance incentives to help producers to improve and protect soil and water resources, and to conserve valuable wetlands in ways that continue to support an economically sound agricultural system.

Soil and water conservation programs are a high priority in the Department. Nearly $3 billion is being proposed in the 1992 budget to continue progress toward implementing the 1985 Food Security Act requirements and to support new authorities under the FACT Act, and also to maintain the traditional conservation programs that SCS has historically had.

The Soil Conservation Service, through its technical assistance capabilities, has provided the basic delivery system for the administration of USDA conservation programs for over 50 years, working in partnership with farmers and ranchers, soil conservation districts, and other Federal and State and local agencies. The law now requires us to direct the resources of this partnership to those agriculture and environment problems that are of particular concern to the American public. The SCS has a crucial responsibility to administer the technical aspects of the law and to provide the technical assistance agricultural producers need and expect to ensure their compliance.

The 1992 budget requests an increase of $50 million to add some additional staffing and computer support in SCS field offices where the workload related to implementing conservation compliance plans is the heaviest. This is a critical need if we are to meet the goals that have been set, and we ask for your support.

The Department continues to direct attention to the issue of water quality improvement. About $240 million in USDA program funds would be directed to specific water quality activities in 1992 to continue a strong research effort, to maintain ongoing education, technical, and financial assistance in the 90 water quality projects and other regional projects initiated by the Department both in 1990 and 1991, to implement the new 1990 farm bill water quality authorities under the Conservation Reserve and Water Quality Incentives Program.

In conclusion, Mr. Chairman, all of us involved in agriculture have a responsibility and willingness to maintain our natural resource base. Our emphasis at USDA is to encourage a voluntary environmentally sound and economically viable response from the agricultural sector when it comes to water quality and the protection of our natural resources. We believe this is a sound approach, and one that will net results. Our budget is built on this premise.

PREPARED STATEMENTS

I thank you again for the opportunity to be here, and I think Mr. Richards would like to submit for the record his comments. Thank you.

[The statements follow:]

STATEMENT OF JAMES R. MOSELEY

Mr. Chairman and members of the Committee, I am pleased to be here today In support of the 1992 budget request for the Department's Soil Conservation Service (SCS). I have with me Bill Richards who recently joined the USDA team as Chief of SCS. We are both challenged by the leadership opportunities before us as we participate with American farmers and ranchers in implementing the most comprehen-

sive, environmentally enhancing conservation strategy in our Nation's history. We believe it is up to today's agricultural leaders to help producers make the most of the opportunities for change that are now a matter of public mandate as evidenced by the 1985 and 1990 farm laws. We appreciate the strong support that exists in the Congress, and particularly from members of this Committee, as we move forward to implement the conservation provisions of the law.

The budget request before us today is driven by our commitment to the long-term objectives of maintaining a strong, productive agriculture and, at the same time, managing and enhancing our natural resource base. These are not conflicting goals. Production of adequate supplies of food and fiber to meet global demands can be accomplished in an environmentally benign way. Clearly society expects this. As we work with producers to protect soil resources on highly erodible cropland, to conserve valuable wetlands, and to improve and protect the quality of water, our response to this expectation will be based on solid science, sound economics, and practical technology.

Soil and water conservation programs are a high priority of the Department. Nearly $3 billion is proposed in the 1992 budget to continue progress towards implementing the 1985 Food Security Act requirements, to support new authorities of the Food, Agriculture, Conservation and Trade Act of 1990, and to maintain traditional conservation programs. We believe this budget represents a balanced package of research, education, technical assistance, and financial assistance incentives that address our highest priority resource conservation needs.

The Soil Conservation Service, through its technical assistance capabilities, has provided the basic delivery system for the administration of USDA conservation programs for over 50 years. Working relationships with farmers, ranchers, conservation districts, state conservation and natural resources agencies, and other Federal agencies are firmly established. An impressive record of accomplishment in terms of soil and water resource protection has been achieved through the efforts of this partnership. The law now requires us to direct the resources of this partnership to some agricultural and environmental problems that are of particular concern to the American public. SCS has a crucial responsibility to administer the technical aspects of the law and to provide the technical assistance agricultural producers need and expect to ensure their compliance. This responsibility includes: Making technical determinations of highly erodible lands and wetlands, and resolving appeals related to these determinations; working with producers to develop and implement conservation compliance plans that are consistent with the technical standards established by the Service; certifying compliance with the highly erodible land (HEL) and wetland provisions of the law; and administering the technical components of the Conservation and Wetlands Reserve Programs, and the Water Quality Incentives Program.

This has been, and remains a tremendous task. SCS technical assistance resources have been stretched to the limit. Between 1986 and 1990, highly erodible land and wetland determinations have been made on over 2.6 million farms. Conservation plans have been developed covering nearly 135 million acres of cropland. All these plans must be installed by the December 1994 deadline set by the law, less than 4 years from now. Although some of the plans are already in place, there are still over 81 million acres of cropland remaining to be brought into compliance.

It is critical for us to add some additional staffing and computer support in SCS field offices where the workload is heaviest. The 1992 budget requests an increase of $50 million for this purpose. This is a very high priority item and we ask your support.

The Department continues to direct attention to the issue of water quality improvement. USDA provides leadership for a coordinated governmentwide initiative to prevent and reduce the pollution of surface and groundwater from agricultural activities. About $240 million in USDA program funds would be directed to specific water quality activities in 1992. Under these initiatives, agricultural researchers are working to determine which agricultural practices may adversely affect water quality, and to develop alternative practices that work for the producer and the environment. Through the Cooperative Extension Service and the Soil Conservation Service, we are working with producers to apply the results of our research on the land. USDA has established 16 water quality demonstration projects to show new ways to minimize the adverse effects of agricultural nutrients and pesticides on water quality. Plans are being developed and implemented in 74 hydrologic unit project areas throughout the country to prevent or reduce existing water quality impairments related to agricultural activities. ASCS cost-sharing programs support work on these and other water quality projects. New authorities provided by the FACT Act, including the Water Quality Incentives Program and expanded CRP water quality criteria, give us some additional tools to incorporate into our program. Re-

sults from these initiatives will be closely monitored and evaluated as we proceed to ensure the long-term effectiveness of our efforts.

In conclusion, all of us involved in agriculture have a responsibility to self-regulate and educate our own industry. Agriculture does have the potential to be self-sustaining. We produce renewable commodities, and with careful management, soil and water, our most basic resources, are also renewable. Our emphasis at USDA is to encourage a voluntary, environmentally sound, and economically viable response from the agricultural sector when it comes to water quality and the protection of the resource base. We believe this is a sound approach and one that will produce results. Our budget is built on this premise.

I thank you again for the opportunity to be here today. Mr. Richards will provide an overview of the SCS budget request. We will be happy to respond to your questions.

Biographical Sketch

JAMES R. MOSELEY

James R. Moseley was appointed on July 2, 1990, as Assistant Secretary of Agriculture for Natural Resources and Environment by President George Bush. As Assistant Secretary, Mr. Moseley is responsible for directing the policies and supervising the activities and programs of the Forest Service and the Soil Conservation Service.

Before appointment to his present position, Mr. Moseley served as Agricultural Adviser to William Reilly, Administrator of the Environmental Protection Agency. In this position Moseley advised the administrator on environmental issues that directly affected the agricultural industry.

Moseley is a native of Indiana. He graduated from Purdue University and received a B.S. degree in horticulture in 1973. Following graduation, Moseley started a farming operation in Indiana. Today the operation consists of a grain and hog enterprise.

Over the years Moseley has been involved in extensive political and agricultural industry activities, including service as co-chairman of the "Farmers For Bush" campaign in Indiana. He also served with several public policy groups that work on agriculture and rural development policy at the local, state and national level, including the board of directors of the Farm Foundation. In 1982, he was named "National Outstanding Young Farmer" by the Jaycees.

Moseley and his wife, Kathy, have seven children and live near Lafayette, Indiana.

Statement of William Richards

Mr. Chairman and members of the Committee, it is a real privilege to be here today to discuss the fiscal year 1992 budget proposals for the Soil Conservation Service (SCS).

I am especially honored to serve as the Chief of SCS, an agency of people deeply committed to the highest standards of public service. From my own farming experience, I know that the SCS, conservation district, extension, and land-grant university partnership provides the education, technology, and technical assistance that keeps American agriculture the most productive and efficient system in the world. I am committed to doing all I can to strengthen this partnership as we work with farmers and ranchers to address public concerns with the environmental impacts of agricultural activities. I am aware of this committee's strong support for soil and water conservation. I look forward to working with you over the coming months.

FARM BILL IMPLEMENTATION

Assisting agricultural producers meet the conservation requirements of the 1985 and 1990 Farm Bills remains our highest priority for fiscal year 1992. Conservation plans have been developed for more than 1.2 million producers covering 134.7 million acres of cropland. Work is now underway to apply the practices agreed to in the plans. Conservation plans currently include an estimated 205,000 miles of terraces, 1.3 million acres of grassed waterways, and other structural and agronomic practices needed to achieve the substantial reductions in soil erosion required under the law.

Acres under conservation tillage are expected to increase a minimum of 46 million acres by 1995, a 63 percent increase over the current 73 million acres of cropland

in conservation tillage. We believe that many land users adopting conservation tillage on highly erodible land, will also adopt it on non-highly erodible acres. As a result, conservation tillage is likely to cover as many as 150 million acres by 1995. Conservation tillage is well-documented and well-proven, yet it's a technological breakthrough that has not been adopted as fast as other kinds of practices. I think its time has come because it so obviously supports economically and environmentally sound farm management. As you may know, I have been an innovator in the use of conservation tillage on my own farm for many years. We look forward to helping other farmers learn how to manage and benefit from this and other conservation practices that help reduce erosion, improve water quality, and protect soil and water resources for future generations.

It is clear that getting all these compliance plans implemented is going to be a challenging task. Many farmers are going to have to adapt to new ways of managing their operations. Some are already there. As of December 30, 1990, conservation plans were fully implemented on about 53.6 million acres, or nearly 40 percent of planned acres. Much of this represents land that was already in compliance or that has been placed in the Conservation Reserve Program. Conservation plans remain to be applied on over 81 million acres of cropland by the December 1994 deadline, four years from now.

SCS is facing a tremendous workload in terms of the technical assistance that farmers need and expect as they implement their compliance plans. Conservation application rates are reaching record levels. We have also been assigned extensive new responsibilities under the FACT Act conservation title including administering the technical aspects of the Conservation and Wetlands Reserve Programs, and the Water Quality Incentives Program. Every available means at our disposal is being employed to handle this workload as efficiently and effectively as possible. However, we are experiencing serious staff shortages in many states where the workload is especially heavy. Our 1992 budget requests an increase of $50 million under the Conservation Operations appropriation to expand the level of SCS technical assistance available to support Farm Bill work. This increase would enable us to add about 660 staff-years in high workload field offices, and to purchase some additional computer equipment needed to support Farm Bill program administration in high priority areas. An increase of $33.2 million is requested to cover the costs of Federal pay increases. If we are not funded for these mandatory costs, we have no choice but to reduce the size of the existing work force. It is urgent that we have sufficient funds to maintain current staffing levels, and to increase these levels under Conservation Operations as the budget proposes. Without these additional resources, we would be hampered in our ability to properly administer the program and to provide farmers with the assistance they need in order to comply with the requirements of the law.

SCS is legally bound and fully committed to carrying out the spirit and intent of all the provisions of the law. We will do everything we can to make the rules fair and equitable, to develop and implement plans with common sense and local guidance, and to use the best available and practical technology. We are encouraging farmers to take their plans seriously, and to take the initiative to seek our assistance without delay so they can meet the statutory deadline.

WATER QUALITY

Continued implementation of the USDA water quality initiative is another high priority activity for SCS. The budget includes $45.6 million in technical assistance funds to support this effort in 1992. This is about the same as the 1991 level. The major objective is to encourage the voluntary adoption of environmentally and economically sound management practices that prevent or reduce surface and groundwater contamination by agricultural nonpoint sources without sacrificing farm profitability. Technical assistance and education are key to successful voluntary programs. Coordination among all federal and nonfederal agencies supporting water quality program objectives is also essential. These elements, along with the research component, comprise the basic foundation of the USDA initiative.

A total of 90 USDA water quality projects have been designated in fiscal years 1990 and 1991 to receive accelerated education, technical, and financial assistance. Of these, 16 demonstration projects are being established under the joint leadership of SCS and the Extension Service (ES). These projects are designed to demonstrate the effectiveness of selected conservation practices in treating specific nonpoint source pollution problems, and to promote the use of these practices in other areas. These projects are utilizing the newest and best information to implement cost-effective production systems that combine efficient production with producers' water quality goals.

The remaining 74 projects are designed to make specific water quality improvements in selected agricultural watersheds, called hydrologic unit areas. These projects are in areas where there is significant impairment of water quality from agricultural nonpoint sources. Project selection is closely coordinated with the state assessment and management reports required under section 319 of the Water Quality Act of 1987. SCS, ES, the Agricultural Stabilization and Conservation Service and other cooperating agencies are providing conservation planning, technical, and financial assistance to help farmers and ranchers meet state water quality goals without undue economic hardship.

The budget provides funding to continue work on all 90 projects. No new projects are proposed. Support will also continue at current levels for ongoing cooperative regional water quality projects such as the Chesapeake Bay, the Gulf of Mexico, and the Great Lakes national programs.

I would like to point out that water quality concerns are also being incorporated into the conservation planning and application activities carried out by the Service under our traditional program authorities. The impact from emphasizing water quality improvement will thus extend beyond the designated project areas I've just described. Significant water quality benefits will also be realized from erosion reductions achieved as compliance plans are installed and as additional land is placed into the Conservation Reserve Program.

SUPPORT FOR OTHER CONSERVATION CONCERNS

The budget proposes funding to continue the traditional conservation programs of SCS, reflecting a balanced approach to soil and water conservation. While public attention is currently focused on the issues of erosion reduction on cropland, water quality improvement, and wetlands conservation, we recognize the need to maintain steady support for other conservation priorities to the extent that resources permit. Range conservation, irrigation water management, urban conservation assistance, water conservation, and upstream flood damage reduction will continue to receive attention. Budgetary constraints dictate a more rigorous priority-setting process of allocating limited Federal resources to the most critical problem areas where significant benefits can be achieved. We will continue to look to our partners at the state and local levels of government and to private land users to carry their full share of the responsibility for resource protection. These concepts have guided our operations in the past, and they will be continued under the 1992 budget request.

The budget would continue the Great Plains Conservation Program, reauthorized in the 1990 Farm Bill, at the 1991 operating level. About 1,160 new contracts covering over 3 million acres would be signed. Persistent drought and damages from wind erosion are recurring problems in this important agricultural area. Producers who sign long-term contracts under this program agree to implement resource management systems on their entire operating unit. This has proved to be an effective approach for the protection of fragile soils and the conservation of limited water supplies in the Great Plains region.

With the increase in funds appropriated in 1991, the Secretary recently announced the establishment of 15 new Resource Conservation and Development (RC&D) areas encompassing 110 counties in 14 states. Seven existing areas are also being expanded. This is the largest expansion of RC&D program assistance in recent years.

The RC&D program provides support for rural development and resource conservation by helping local communities work together to expand economic opportunities and improve community resources. An RC&D coordinator is assigned to each area to assist RC&D councils and local sponsoring organizations identify natural resource and economic needs, help local people set priorities, develop plans of action, locate funding sources, and coordinate the implementation of planned measures. Typical RC&D projects include improving or establishing community facilities and water supplies, marketing local products, implementing erosion control and flood protection projects, and establishing or improving recreation and other economic enhancing facilities.

The 1992 budget emphasizes the technical assistance role provided by SCS through RC&D area coordinators. RC&D councils assign a high priority to the technical assistance they receive under this program. The budget proposes to discontinue the financial assistance which has traditionally been provided for the implementation of project measures, and to concentrate resources on technical assistance. Project sponsors have demonstrated a growing ability to secure project financing from other sources.

WATER RESOURCES PLANNING AND CONSTRUCTION

The 1992 budget proposes to continue SCS water resources programs including River Basin Surveys and Investigations, Small Watershed Planning, and Watershed and Flood Prevention Operations, at a lower level of funding. A total of $171.2 million is proposed for these programs, a decrease of about 17 percent below the 1991 appropriated level. As I mentioned earlier, we are working with our cooperators to direct limited Federal dollars to those water resources projects and activities that address the most urgent needs for the reduction of potential damages from flooding and sedimentation; the improvement of water quality; and other purposes such as recreation, fish and wildlife habitat improvement, and the conservation and efficient management of water. We are looking for cost-effectiveness, environmental sensitivity, and strong local support for those projects we pursue. We also recognize the need to fulfill existing and viable program commitments. The proposed budget will enable us to continue work that is already underway. We would proceed a little more slowly on new project commitments, including studies of river basin areas, the development of new small watershed plans, and new watershed project construction starts.

In conclusion, Mr. Chairman, we believe we have a clear mandate from the Congress and the American public to support an environmentally-responsible agriculture. We're devoting significant resources of money and manpower to the Farm Bill challenge and we're making some sacrifices in terms of other conservation priorities. We're also struggling to accept, and be accepted in, our changing role as we move away from a strictly voluntary approach to mandated conservation. What we're all working towards is the widespread adoption of onfarm conservation systems that are both economically and environmentally sound. The technology is available and will continue to improve. SCS can and will help farmers understand their responsibilities. Working together, we will get the best technology at work on the land to protect our soil and water resources and ensure the long-term productivity of American agriculture.

I will provide for the record tables showing a summary of the 1992 budget request for SCS by account and program, and a listing of fiscal year 1991 funds appropriated by state and local governments for soil conservation programs. We will be happy to answer your questions.

SOIL CONSERVATION SERVICE FISCAL YEAR 1992 BUDGET

[In thousands of dollars]

Appropriation	Fiscal year 1990 actual[1]	Fiscal year 1991 current estimate	Fiscal year 1992		
			Pay cost increases	Program changes	Total request
CONSERVATION OPERATIONS					
Technical assistance:					
BASE/FSA	[2]$370,217	[2]$382,162	+$24,511	+$50,000	$456,673
Water quality	26,477	44,100	+1,500	.....	45,600
Total, technical assistance	396,694	426,262	+26,011	+50,000	502,273
Soil surveys	68,075	69,812	+2,742	.....	72,554
Snow surveys and water forecasting	5,447	5,563	+150	.....	5,713
Operation of plant materials centers	7,161	7,873	+191	.....	8,064
Total, conservation operations	477,377	509,510	+29,094	+50,000	588,604
RIVER BASIN SURVEYS AND INVESTIGATIONS					
USDA cooperative studies	8,028	8,349	+324	−1,501	7,172
Flood plain management assistance	3,125	3,250	+77	−535	2,792
Interagency coordination and program formula	1,139	1,184	+67	−233	1,018
Total, river basin surveys and investigations	12,292	12,783	+468	−2,269	10,982
Watershed planning authorized by Public Law 566	8,824	9,176	+369	−2,254	7,291
WATERSHED AND FLOOD PREVENTION OPERATIONS					
Watershed operations authorized by Public Law 534:					

SOIL CONSERVATION SERVICE FISCAL YEAR 1992 BUDGET—Continued

[In thousands of dollars]

Appropriation	Fiscal year 1990 actual[1]	Fiscal year 1991 current estimate	Fiscal year 1992		
			Pay cost increases	Program changes	Total request
a. Technical assistance	9,772	13,922	+325	+397	14,644
b. Financial assistance for construction	16,038	12,764	.....	–7,064	5,700
Loan services	79	80	.....	–24	56
Subtotal, flood prevention	25,889	26,766	+325	–6,691	20,400
Emergency watershed protection operations	[3] 94,855	20,000	+28	–10,028	10,000
Small watersheds authorized by Public Law 566:					
a. Technical assistance	53,214	56,126	+1,208	+2,631	59,965
b. Financial assistance for construction	81,737	82,641	.....	–20,176	62,465
c. Loan services	172	172	.....	–41	131
Subtotal, watershed operations	135,123	138,939	+1,208	–17,586	122,561
Total, watershed and flood prevention operations	255,867	185,705	+1,561	–34,305	152,961
GREAT PLAINS CONSERVATION PROGRAM					
Cost-sharing assistance	12,919	16,383	.....	.....	16,383
Cost-share Programming and Contract Administration	2,549	2,641	+203	.....	2,844
Technical assistance	5,416	5,613	+431	.....	6,044
Total, Great Plains Conservation Program	20,884	24,637	+634	.....	25,271
RESOURCE CONSERVATION AND DEVELOPMENT					
Technical assistance	22,996	24,181	+1,116	–1,726	23,571
Financial assistance	4,200	5,659	.....	–5,659	.....
Loan services	59	60	.....	.....	60
Total, resource conservation and development	27,255	29,900	+1,116	–7,385	23,631
Subtotal, SCS appropriated funds	802,499	771,711	+33,242	+3,787	808,740
Rural Abandoned Mine Program	(12,000)	(11,933)	.....	(–8,933)	(3,000)
Trust funds	1,002	560	.....	.....	560
Total, Soil Conservation Service	803,501	772,271	+33,242	+3,787	809,300
Ceiling staff-years	13,519	[4] 14,177	.....	.....	14,545

[1] 1990 Appropriation Act net of the 1.4% Gramm-Rudman sequester.

[2] Includes $428,000 in 1990 and $454,000 in 1991 transferred from the Rental Payments (USDA) account for space leases assigned by GSA to SCS in 1990 and 1991.

[3] Includes $1,000,000 transferred from COE for the Johns Creek project and $15,000,000 transferred from FEMA for emergency work.

[4] Official ceiling. Available funds will support an estimated 13,678 staff-years.

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS[1] FISCAL YEAR 1991

State	State government	Local government	Total
Alabama	$1,313,047	$1,095,590	$2,408,637
Alaska	51,625	1,000	52,625
Arizona	610,801	949,290	1,560,091
Arkansas	1,505,545	1,671,500	3,177,045
California	5,135,425	5,693,934	10,829,359
Colorado	877,603	516,346	1,393,949
Connecticut	5,240,200	762,600	6,002,800

FUNDS APPROPRIATED BY STATE AND LOCAL GOVERNMENTS FOR CONSERVATION PROGRAMS[1] FISCAL YEAR 1991—Continued

State	State government	Local government	Total
Delaware	4,832,000	655,000	5,487,000
Florida	3,323,000	2,550,000	5,873,000
Georgia	3,251,000	2,181,000	5,432,000
Hawaii	9,139,768	3,070,163	12,209,931
Idaho	5,143,927	151,875	5,295,802
Illinois	7,453,499	3,947,969	11,401,468
Indiana	8,972,536	2,959,403	11,931,939
Iowa	22,570,086	938,612	23,508,698
Kansas	8,759,245	5,896,803	14,656,048
Kentucky	3,488,100	456,700	3,944,800
Louisiana	4,060,000	373,250	4,433,250
Maine	251,050	391,586	642,636
Maryland	5,671,666	2,797,540	8,469,206
Massachusetts	277,240	183,260	460,500
Michigan	4,873,506	1,735,503	6,609,009
Minnesota	19,900,000	14,438,000	34,338,000
Mississippi	213,106	2,947,086	3,160,192
Missouri	19,286,291	265,186	19,551,477
Montana	4,638,500	1,686,000	6,324,500
Nebraska	7,961,376	27,402,456	35,363,832
Nevada	0	55,891	55,891
New Hampshire	77,191	231,745	308,936
New Jersey	1,164,672	3,512,081	4,676,753
New Mexico	310,232	938,924	1,249,156
New York	14,997,000	4,065,000	19,062,000
North Carolina	10,342,205	7,737,805	18,080,010
North Dakota	701,000	1,009,700	1,710,700
Ohio	8,750,100	4,374,082	13,124,182
Oklahoma	4,225,191	1,900	4,227,091
Oregon	526,800	3,894,300	4,421,100
Pacific Basin	0	329,310	329,310
Pennsylvania	3,640,000	4,742,500	8,382,500
Puerto Rico	11,760,250	1,910,450	13,670,700
Rhode Island	119,000	11,500	130,500
South Carolina	3,564,042	1,383,110	4,947,152
South Dakota	366,000	694,066	1,060,066
Tennessee	1,160,109	1,804,673	2,964,782
Texas	3,627,557	92,067,099	95,694,656
Utah	26,545,004	207,400	26,752,404
Vermont	673,000	48,000	721,000
Virginia	6,711,248	2,287,343	8,998,591
Washington	4,805,199	3,991,652	8,796,851
West Virginia	3,220,879	640,754	3,861,633
Wisconsin	35,825,317	12,947,349	48,772,666
Wyoming	853,625	727,885	1,581,510
Total	302,765,763	235,332,171	538,097,934

[1] Preliminary Report February 7, 1991.

BIOGRAPHICAL SKETCHES

WILLIAM RICHARDS

William J. Richards was appointed Chief of the Soil Conservation Service in December 1990. He is an Ohio farmer well known for his pioneering work in conservation tillage. He began his farm operations in 1954 and was one of the first farmers to practice conservation tillage on his entire acreage.

A graduate of Ohio State University in agricultural economics, Mr. Richards received the Distinguished Service Award from the Ohio State University College of Agriculture in 1980. He has served on planning and review committees and as a visiting instructor in agricultural economics classes at Ohio State. His farm is frequently visited by classes from the university, and by farm groups from local

schools, other states, and foreign countries to study conservation and residue management practices and equipment.

Mr. Richards is a member of numerous farm organizations and associations, including the Ohio Farm Bureau, the Ohio and American Soybean Associations, and the National Corn Growers Association. He attended the Harvard Business School's Agri-Business Executive Education Program in 1974, 1975, 1976 and 1979. In 1967, he was named one of the nation's outstanding young farmers by the U.S. Jaycees.

Mr. Richards has spoken widely on conservation tillage, soil compaction, controlled traffic, and farm management. He has been a speaker at many national meetings, including the National Soybean Association, National Farm Broadcasters, USDA Outlook Conference, and National Agricultural Law Association. He is featured in The Entrepreneurs, a book about 12 persons who took risks and succeeded.

He has traveled extensively studying agricultural techniques, visiting farms and agricultural leaders in most of the 50 states, in addition to England, Europe, Australia, New Zealand, and South America.

Mr. Richards is a native of Ohio, born in Richmondale in 1931. He and his wife, Grace, have been married since 1952. Their three sons all have received agricultural degrees and are managing the family farm, which began with 140 acres of neglected river bottom land.

WILLIAM L. RICE

William L. Rice has been the Deputy Chief for Administration, USDA-Soil Conservation Service (SCS), since January 1991. From 1986 until January 1991, he served as the Deputy Chief for Administration, USDA-Forest Service (FS). Prior to that position, he was the Associate Director for Policy, USDA Office of Information Resources Management (OIRM). Prior to his position as Associate Director of OIRM, he was Director of Program Development and Budget, Director of Administrative Services, and Director of Fiscal and Accounting Management with FS. Before coming to the National Office of the FS, he had a number of field assignments in Arizona, New Mexico, and Montana.

Mr. Rice is a native of New Mexico and a graduate of Western New Mexico University, Silver City, New Mexico. He is an alumnus of the John F. Kennedy School of Government, Harvard University, and has attended a Brookings Session and the Federal Executive Institute. He and his wife, Judy, are the parents of two sons.

USE OF EEP FOR VEGETABLE OILS

Senator BURDICK. Senator Bond.

Senator BOND. Thank you, Mr. Chairman. I have a number of questions in a number of areas, but let me start first with Secretary Crowder. Dick, as you know, the EEP was created in 1985 to combat unfair trade practices and continues to represent our best weapon to fight against the competitors who use subsidies, and especially the European Community. We are very much concerned that the European Community continues to ignore their international trade obligations, particularly at the expense of the American oilseed industry. To my knowledge we have not used any EEP assistance for vegetable oil sold under the program, despite the fact that there are some clearly unfair trade practices going on here. Are there prospects for expanding EEP into vegetable oils?

Dr. CROWDER. Senator Bond, we have sold vegetable oil under the EEP. We have at least one initiative that is outstanding now where there is a balance. Mr. Dickerson can comment on that. Vegetable oil and a number of high value products are areas that we have wanted to increase, but even in those areas where we have had and do have balances, some initiatives have expired with balances on them. We do try to keep EEP initiatives for vegetable oil open and outstanding, and there are some as of right now, I believe. Is that correct, Paul?

Mr. DICKERSON. That is correct. We have a 60,000-ton operable initiative right now for Tunisia for vegetable oil, and we have, as Mr. Crowder has said, several other destinations under consideration at this time. During the current fiscal year we have used almost $2 million to access sales under the program for vegetable oil.

ALLEY CROPPING UNDER CRP

Senator BOND. Next I have a rather serious problem with the way the Department is dealing with the alley cropping provisions in the FACT Act, and I would address the question either to Mr. Bjerke or Mr. Crowder. I put the alley cropping provision into the 1990 farm bill because, based upon work done at the University of Missouri, it seemed to make a great deal of sense to use alley cropping to encourage the planting of trees on all CRP land. Already we are some 2 million acres short. In our State and a number of other States in the Midwest the percentage of CRP going into trees is minimal or almost nonexistent. I had hoped that allowing alley cropping on land that is already in CRP would go a long way to help make up that 2 million acres.

Since alley cropping was a provision I put in, I can assure you the intent was to allow past, present, and future land in CRP to be used for alley cropping, provided the conditions set forth in the legislation are met. Not only would alley cropping bring trees into the program, but it would also cut the annual rental payments at least by half. I do not see how we can justify an increase in funding for CRP until we get serious about some of these long-term conservation practices. And frankly, I question how serious the USDA is about the alley cropping of CRP when signups started on Monday and the regulations did not make it out until Wednesday.

I have some comments, both from the school of ag economics and the school of natural resources at the University of Missouri. One of them stated that it does not appear that the USDA wants to encourage landowners to plant hardwoods, and another one said that it appears to him that we have managed to remove all incentives for getting landowners to adopt a reasonably priced option for getting highly erodible land out of production long term through the planting of trees specifically.

I would like to know what basis you came up with. I gather it is a regulation or proposal that only newly enrolled acreage would be eligible for alley cropping?

Mr. BJERKE. Thank you, Mr. Senator. You are correct that the proposed rule, which is now out for public comment, does limit it to future enrollment, instead of going back and tearing out existing CRP cover for alley cropping. It was not the intention of this proposal to limit alley cropping but actually to make it more fair to those that had already taken highly erodible land out of production, not to bring it back into production between the planting of hardwood trees.

Right now we are in a 15-day comment period, and the responses we receive will be evaluated. The final rule is the document that ultimately sets up how this program is administered. But we are in the rulemaking process now, and the reason we use that, of course, is to allow all of the people that are affected by these rules

and regulations to have a shot at their interpretation of the proposal.

Senator BOND. Are you saying that because the CRP applies to highly erodible land you do not like the idea of having alley cropping?

Mr. BJERKE. No, sir; what we were concerned about was that we currently have roughly 34 million acres in CRP that was limited to highly erodible land. The CRP of the future is not just limited to highly erodible land. It has other aspects as well, and certainly trees are a high priority in the next 6 million acres that we will be enrolling.

Senator BOND. But wasn't the goal for 12 percent on the previous land?

Mr. BJERKE. Yes, it was.

Senator BOND. And Missouri and a number of other Midwestern States, I guess, are bouncing around about 1 percent.

Mr. BJERKE. There are roughly 2 million acres in the total so far that have been committed to trees. Now, with alley cropping on existing CRP acres, if they were in fact going to plant an agricultural commodity between the tree rows, they would then be authorized, as I understand it, to go in and tear out the cover that has already been established, reducing their rental payments, as the law requires, by about 50 percent.

Senator BOND. At least 50 percent, I believe, the law provides.

Mr. BJERKE. And then go and tear out permanent cover that has already been established under a conservation plan for the 10-year period. Now, it was our hope that we would make alley cropping readily available on new land coming into the CRP, but we wanted to take a hard look at whether or not we should be destroying current CRP cover in order to plant hardwood trees.

Senator BOND. Frankly, under the new signup and the tilt toward other lands, you are not going to get a heck of a lot of land in the Midwest, and I guess we are getting down to a basic disagreement in philosophy. If you want trees and hardwood trees planted on CRP land, unless you are saying that it was a bad idea to get these trees planted in the first place, it is the view of people whose judgments I rely on in the University of Missouri that to get trees planted you are going to need to develop a means of including these contracts to allow alley cropping. There has been an insufficient effort to encourage the planting of trees. It appears to me that the only way to get trees planted is to provide for some kind of alley cropping so that the planting of trees, and obviously with appropriate conservation practices on alley cropping lands, would be allowed.

Do you get the drift of what I am saying, or should I submit a specific public comment? I think that your regulations and your proposed regulations are totally off base, to make it a little clearer.

Mr. BJERKE. You do not have to make it any clearer, Senator. I assure you we understand, and that all of this will be a part of the public record. We will certainly accept this as your comment and pursue that issue in the rulemaking process.

Senator BOND. Mr. Chairman, I have many other questions, but I will wait another round to allow you and Senator Kerrey to go ahead.

Senator BURDICK. Senator Kerrey.

STATEMENT OF SENATOR KERREY

Senator KERREY. Thank you, Mr. Chairman. First of all, Secretary Crowder, let me heap some praise on Mr. Bjerke, who has been very, very responsive to requests that we have made for information and help on a variety of things. He has been extremely responsive. And you are quite right. The farm bill is complicated, and we are already hearing some complaints and some problems, as I am sure you know, but you make the job an awful lot easier, I would say, by the responsiveness you have provided so far.

I would add that one of the questions I had was just raised by Senator Bond. You can add my comments to the record as well. We are hearing the same sort of thing, we are going to have difficulty getting trees planted under the proposed regulation.

BLENDED YIELDS

I would like to ask one question about blended yields, and I assume, Mr. Bjerke, that you would be the one that answers it. Earlier, Secretary Crowder, I received a letter dated December 26, from Deputy Under Secretary Campbell which was reassuring because it said that USDA had no intention to blend payment yields. It was a very good piece of news, and it helped allay a lot of concerns that were present among my farmers.

We now have a specific problem, however, with the formula where, for example, a landowner is leasing land to a producer. I suspect, Mr. Bjerke, that you are familiar with the problems. It appears that when a landowner who has irrigated land that is leased to someone with irrigated and dry land, that the landlord's irrigated land is being regarded as dry land, which creates a disincentive for renting. My question is whether or not you considered these kinds of problems in devising your formula, and whether or not there is any way to make it less troublesome to implement?

Mr. BJERKE. Let me respond to that, Senator Kerrey, that we are not blending yields, as the term would suggest, but we do have a requirement under the 1990 FACT Act that we cannot increase the number of acres with an irrigated yield beyond what was done in 1990 on a farm number. We are recording the actual history of the irrigated crop, acreage, and base on that farm number, as well as the dry land acres on that farm number, and the producer will continue to receive his notification of yields and bases showing what portion of that farm is irrigated and what portion of that farm is not irrigated. As we get into the mix of those crops, we have, as you suggested, developed a formula that weights that and becomes a benchmark.

As to the payment then, if he plants one-third of his farm to irrigated corn and two-thirds of his farm to dry land corn, his total payment for 1991 will be the same as if we had paid those two components individually, but in fact there will be one payment with a weighted yield differential. The problem that you have addressed is that the only irrigated acreage in that farm happens to belong to another party, so that party comes in and says now wait a minute. I am a cropshare tenant, and you are telling me that

since I am a part of your farm that I am going to get a reduction in my cropshare? And our answer to that, quite honestly, would be that it would be time then for that landlord and tenant to take a look at the cropshare. If, in fact, the irrigated landlord is providing more than 30 percent of the crop to that mix, he would be totally entitled, in my estimation, to a higher percentage of the corn crop.

But that does not change the total number of dollars going to that farm unit. In fact, in most cases we have discovered that over time there might even be an advantage as you compare the dry land yield and the irrigated yield, and freeze those in place until the farm size changes. You may have to change the percentage of that crop that goes to an individual, but the farm would not lose any payment or any yield in this process. We think that is very easy to determine, and very easy for that landlord and tenant to understand, and that it does not encourage the landlord, as has been suggested by one of your staff back in Nebraska, to pull this land out of the farm because he feels that he is being unjustly handled. I think that that is a landlord-tenant situation that does not affect the overall farming picture.

Senator KERREY. Well, it may be that in theory the formula should not affect it, but we are indeed seeing situations where the landlord and the tenant are not experiencing the result you are describing. I appreciate that in theory they should be able to resolve the problem so that there is no loss to either side, but at least the landlord has the opportunity to lease to someone without this mix of irrigated and dry land yields, and it seems to me it would be advantageous for him to do so. That is just one example of the problems we are finding out there.

Mr. BJERKE. If the tenant gave the landlord his just share, or her just share, as is often the case, there really should be no advantage. I think the total dollars still come out the same. They could do that through cash grant lease agreements, or they could do it through sharecrop lease agreements by just adjusting the sharecrop.

Senator KERREY. Well, that is an interesting policy perspective, that the tenants just need to pay a bit more to the landlord, and then everything is OK. Is that basically what you are saying?

Mr. BJERKE. Well, traditionally sharecrop agreements are based upon percentage of contribution, and they vary from State to State, from 30 percent to in some cases 45, 50, even 60 percent. And all I am saying is that with the 1990 farm bill there is a real issue of a change in contribution because if the tenant, in fact, only had a dry land farm and if the landlord had the irrigated farm, and if there was a benefit to have them combined for the opportunity to rotate crops freely on that total farm number, then there is a high possibility that the contribution has in fact changed and that there ought to be a reflection of that in the payment.

Senator KERREY. Well, I appreciate the objective, and we obviously have an interest in Nebraska when we are talking about increasing the number of irrigated acres in the program. It has been a longstanding battle, and it is extremely controversial. I will submit to you a suggestion at a later time as to how to accomplish that objective in a somewhat simpler fashion. I appreciate your perspective on it, although it is not a terribly persuasive argument out

there in the field. But I recognize that it may in the end be something that comes cut all right. I would like, respectfully, at a later time to suggest a bit more simple formula.

SUMMER FALLOW AREAS

We also have an issue out there right now concerning cover crops in summer fallow areas. I think you know as well that there is in the 1990 farm bill a rather brief description in a single parentheses that says "including summer fallow areas." That actually derives from the administration's green book page 49 that requires farmers in these areas to plant a cover crop. Mr. Bjerke, I assume you are familiar with the controversy since the State ASC committee made the judgment to include all of our State as an arid area and were overruled by Washington. Can you tell me why you believe that you are accurately following the law in this case, and why you simply do not allow the State ASC committee to make this determination?

Mr. BJERKE. Yes, sir; it has not been overruled at this point. In fact this afternoon I will be on a conference call again with the SED's from the Canadian border to the Mexican border. It happens that that line of six States basically represents the transition area where you go from semi-arid to non-semi-arid production, summer fallow production, nonsummer fallow production. The problem we had as we tried to draw a line on the map is we got to the bottom of Nebraska and we were all the way over on the eastern border and we immediately went to Kansas in the center of the State.

And I can assure you that I had several phone calls from the farmers right across the line in Kansas wondering why is it that this line all of a sudden makes a 200-mile jog and they are ruled into this program of conservation compliance while their neighbors right across the line are not? And I did not have a very good answer, quite honestly.

And then we got to the bottom of Kansas, and then we went again all the way to the end of Oklahoma, and came around, and we found that there were only three counties in the far southwestern corner of Texas that were out of the requirement—and they happen to be desert, basically—and the entire high plains of Texas was not. We had Oklahoma all the way around Texas on one side, and New Mexico on the other side that had been ruled out, and again it is a little hard to justify.

So I said listen, we tried very hard to just give you some guidance and let this happen. It obviously has not happened in a reasonable manner. We need to sit together and make sure that this line connects from north to south in some way that I can defend and you can defend. And that is what we are working on. They have sent many proposals in. We have had them arriving by fax yesterday and today, and by tonight, before the sun goes down, we are going to have a line. It will be wrong, I can assure you, because it will be one county off no matter where we draw it.

I am having a lot of difficulty with this issue because it is extremely hard to defend. But I submit it would be harder to defend if we segregated Kansas in the center and Texas at the bottom.

Senator KERREY. It would be less difficult for me to defend. [Laughter.]

Mr. BJERKE. But that is an issu: that we are aware of.

Senator KERREY. Well, I appreciate your attempt to bring consistency to what very often is a very troubling problem when a cartographer tries to draw a line around a river basin or a line around where arid and semi-arid join, and that sort of thing. I would just urge you, in an effort to be consistent, to bear in mind that this is not the only area where we run into that problem. We run into that problem almost every time there is a natural disaster between States, or between counties. We run into that problem almost every time we attempt to deal with the water quality issues, where you have a jurisdictional difference not just between the States but between counties and the cities and so forth.

So this is not the only instance where you may have to plead a case that says that I have a State committee with jurisdiction, and though God may not recognize that committee as the natural entity, nonetheless it is the entity with the logical political influence. I hear you attempting to do the right thing, indeed I do. I hear you are attempting to do the right thing, but I think you are quite right. It is going to be impossible to make all parties happy in this situation, and I am pleased to hear that you have not overruled the State committee and, if you give them the room to move and allow them to participate in the decision, it seems to me that they will help explain it to parties that may in the end be disgruntled.

Mr. BJERKE. That is extremely critical, and the good Senator would know that my home county happens to be on this transition line as well. I have had some interesting calls.

Senator KERREY. I have one very brief question regarding an appeal by a man by the name of Stan DeBoer. We have talked about it before. Can you provide me any information on the status of that case?

Mr. BJERKE. The appeal has been turned down, Senator, as I think you are aware. We were not able to find any new information that would tell us that there had been an error made. I would be pleased to sit down with you and go through detail by detail whenever you would be available.

Senator KERREY. I would appreciate that. I would say for you and for the record, this is the first instance where I have gotten involved in this kind of a situation. It may be that my lack of familiarity with it is causing my own judgment to get skewed, but I do find myself in defense of this particular individual and I would appreciate the opportunity to sit down and review your thinking on the matter.

Mr. BJERKE. I will set up a meeting, Senator, and we will get together.

Senator KERREY. Thanks.

SUNFLOWER/COTTONSEED OIL ASSISTANCE PROGRAMS

Senator BURDICK. Mr. Acker, I would like to ask you a few questions about the Sunflower Oil Assistance Program. Tell me about the current status of the program, how much money you have used, what your planning is and how it is working?

Dr. ACKER. Mr. Chairman, my colleague, Mr. Dickerson, the General Sales Manager, operates with this program on a daily basis

and is much closer to this program than I am. I would appreciate the opportunity to refer this question to him.

Senator BURDICK. Certainly.

Mr. DICKERSON. Senator, the SOAP and the COAP programs are both fully operable at this point. We have targeted Egypt under the COAP Program. We have targeted Algeria and Egypt under the SOAP Program. We have been active with this program during the current fiscal year. I am told as of this morning that bonuses have been approved for 33,000 tons of cottonseed oil for Algeria, and 18,000 tons for Egypt, for a total of 51,000 tons. That would back up against approximately one-half of the $30 million which was allocated for the facility at both of these programs.

In the case of the cottonseed program, we have done 14,000 tons for Egypt, which is the only country that has been targeted under that program. So there has been activity during the current fiscal year, sir.

Senator BURDICK. Is it true that you used the same criteria to run this program that you used for the Export Enhancement Program, such as targeting only countries where the United States faces unfair export subsidies by the European Community?

Mr. DICKERSON. Yes, Senator; that has been the policy.

Senator BURDICK. What is your authority for using this criteria?

Mr. DICKERSON. I do not want to buck the question. Perhaps Dr. Crowder would like to respond to that as well, but my understanding is that, in the case of all of these programs, we certainly want to minimize the pain that may be caused to an unsubsidizing supplier. And, I think as you look at both the EEP for vegetable oil and you look at the SOAP and COAP programs, this causes a great deal of pain and concern on the part of so-called nonsubsidizers, particularly in Latin America. So, as we have conducted this program, we have tried to target nations where we feel that the competition, in fact, is the EC and not the so-called nonsubsidizing suppliers. So, on that theory at least, we have used the EC as the primary focus for our trade policy efforts.

Dr. CROWDER. Mr. Chairman, may I add just a couple of things to that? There are two issues of equity involved here. One is the nonsubsidizing countries that we compete with. That is a first one. The second is that for commodities that are not eligible for SOAP and COAP we would be using different criteria to subsidize the export of the cottonseed oil in one case, the sunflower seed oil in another case, versus soybean oil. That would be an issue of equity among crops within the United States. Rather than use these programs as general subsidy programs, and cause distortions in equity among crops within the United States, and among countries around the world, we are operating them all to target the unfair competition of the European Community, because in the absence of that unfair competition we would be able to and should be able to compete on the basis of the market alone.

And, as Mr. Dickerson just indicated, even with this targeting that we are doing, we are basically on schedule with respect to the target amounts that we want to export under these programs for this year. So, while maintaining equity, we are also able to maintain the targeted volume.

EXPORT ENHANCEMENT PROGRAM

Senator BURDICK. Secretary Crowder, you indicate in your testimony that three-fourths of EEP funding has been used up already. As of mid-February I understand that 86 percent has been used. What is the current spending under EEP as of today, and what percentage of the total U.S. agricultural exports would you say EEP is responsible for?

Dr. CROWDER. As of yesterday, Mr. Chairman, we were up to $412 million out of $425 million, which means that 97 percent of available bonus authority has been utilized. We are down to $13 million in available bonus authority that could run out any day now. The percentage of the U.S. agricultural exports exported under EEP varies tremendously by crop. I think that the highest one this year is 87 percent for barley. We are over one-half on wheat. Paul, you may know the numbers for the other items, the flour, oil, poultry, eggs, and so forth would be a smaller number. But I can submit those to you for the record.

[The information follows:]

EEP SALES AS A PERCENT OF TOTAL EXPORTS (VOLUME)[1]

Commodity	Fiscal year—			
	1987	1988	1989	1990
Wheat	51.0	65.2	42.3	51.5
Flour	70.1	36.8	51.8	50.6
Barley	98.0	75.0	30.6	87.7
Sorghum	2.1	3.5	.....	.....
Rice	1.1	5.6	0.7	.....
Vegetable oil	2.5	21.6	7.3	3.7
Frozen poultry	27.9	29.3	38.6	80.0
Dairy cattle	42.6	4.4	.....	.....
Eggs	68.9	24.1	12.8	25.7

[1] All figures are approximate. Differences between sales dates and actual shipping dates cause the numbers to be somewhat inexact.

MISSING TESTIMONY

[CLERK'S NOTE.—The remainder of the transcript for this hearing was lost. To the extent possible, lost testimony was recovered by the use of written questions and answers.]

SUBMITTED QUESTIONS

Senator BURDICK. Thank you for your testimony. Additional questions will be submitted for written responses, and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

EMERGENCY CONSERVATION

Question: The budget requests no funding for the Emergency Conservation Program. What are your current requests for funding under ECP? Please be specific by State, amount and purpose.

Answer: We have no current ECP requests pending, although we anticipate receiving a request for $300,000 from California to address conservation problems relating to the drought.

FEDERAL CROP INSURANCE

Question: The conference report accompanying the 1991 appropriations act indicates that loss adjustments and sales of federal crop insurance are to be returned to the control of the Agricultural Stabilization and Conservation Service.

Is ASCS capable of handling this workload?

Answer: ASCS is currently implementing the provisions of the 1990 FACT Act, including simultaneous Acreage Reduction Program and Conservation Reserve Program signups. In addition, 1990 FACT Act related workload will continue throughout the fiscal year and will require all current staffing and additional temporary employees for implementation. We believe however, that given the necessary resources, ASCS can capably and effectively handle whatever crop insurance role it is assigned.

Question: What resources would be required for ASCS to carry out these functions?

Answer: It is difficult at this time to estimate the extent of necessary resources. As further discussions with FCIC and the Department take place through April, ASCS will have a better understanding of the estimated funding and staff year needs required to carry out assigned crop insurance functions.

CCC NONFAT DRIED MILK DONATIONS

Question: I note that it is estimated that the amount of nonfat dry milk which will be available from the Commodity Credit Corporation for food programs is reduced for 1992. What are the levels of donations of nonfat dry milk for 1990, 1991 and 1992?

Answer: Nonfat dried milk (NFDM) is made available to outlets such as schools, Indian reservations, the Commodity Supplemental Food Program, and Bureau of Prisons based on projected CCC inventory levels. Total actual NFDM donations based on CCC accounting records were 34.7 million pounds in fiscal year 1990. The fiscal year 1992 CCC budget included estimates for fiscal year 1991 donations of 11.5 million pounds and fiscal year 1992 donations of 36.9 million pounds.

Question: What is the reason for the reduction?

Answer: Reduced donation levels in fiscal years 1990 and 1991 are due to lower CCC inventories. Budget projections indicated that inventory levels would increase in fiscal year 1992, and donations were increased accordingly. The level of donations will be determined, in part, by the amount of CCC-owned inventory that remains after any sales for cash.

1990 CROP DISASTER ASSISTANCE

Question: As you know, the 1990 farm bill authorized disaster payments for disasters damaging the 1990 crop. I have been attempting to get estimates from USDA on the need for these payments. I have been told that an estimated $700,000,000 to $900,000,000 would be needed to fund this program. Can you provide me with more specific information, on a state-by-state basis on the need for these payments. If you don't have the information, how soon could you compile it?

Answer: Unfortunately, we have little information on a State-by-State basis at this time. The amount of total payments would depend on individual producer losses, which would not be known until we start processing claims. The letter Deputy Secretary Parnell sent you on March 6, 1991, represents USDA's best assessment of potential disaster assistance needs across the country. The $700 to $900 million estimate is based on evidence that crop year 1990 losses are somewhat less than average and not as severe as the disasters of 1988 and 1989. This estimate is based on a model developed by ERS using historical disaster payment and crop data.

Question: If the program were funded, how long would it take you to get the payments to the farmers?

Answer: If funds were appropriated, USDA would immediately start the process for implementing the 1990 FACT Act provisions. Since the provisions of the 1990 Act with respect to making disaster assistance available for 1990 crops are very similar to those in previous disaster legislation, we believe that those provisions could be implemented in a very prompt fashion.

Question: Would you need additional funds for personnel to administer this program? If so, how much?

Answer: It is difficult to estimate precisely the amount of ASCS administrative funding and staffing needed for possible FY 1991 disaster activities. However, some additional funding would be necessary since administration of a nationwide disaster assistance program is not included in current Agency funds. Historically, ASCS disaster program workload and administrative costs have varied, depending upon disaster severity, producer participation and disaster program guidelines. The most recent disaster legislation administered in ASCS county offices was under the 1989 Disaster Assistance Act. We estimate that it cost ASCS about $66.0 million to issue approximately $1.6 billion in program benefits under the 1989 Disaster Act for both program and

nonprogram crops. In addition to permanent county office employees, this workload required temporary employees.

WETLANDS RESERVE PROGRAM

Question: Mr. Bjerke, I understand that the regulations for the Wetlands Reserve Program are due to be published very soon and I look forward to the implementaion of this very important program. However, I am concerned that only permanent easements will be offered under this program.

As you know, the 1990 farm bill gave the Department the authority to offer both 30-year and permanent easements. In North Dakota, we have had a lot of experience with permanent easements that are offered by the Fish and Wildlife Service. Farmers are very reluctant to tie up their land in perpetuity, so this program has not been as successful as many had hoped. I am concerned that USDA is going to find that farmers will not enroll their wetlands in the Wetlands Reserve Program permanently, so I encourage the Department to offer the 30-year easements also. What will be your proposal with regard to easements?

Answer: In order to maximize benefits and ensure the most cost-effective investment of public funds, we are initially preparing to limit the acceptance of easements to only permanent easements until the anticipated level of participation in the program can be determined.

Question: In your written testimony, Mr. Bjerke, you state that 600,000 acres will be enrolled in the Wetlands Reserve Program. Since the farm bill authorized one million acres, I would like to know why the Department intends to enroll only 600,000 acres in the program?

Answer: The FACT Act mandates at least 40 million acres for the Environmental Conservation Acreage Reserve Program (ECARP), which includes both the Conservation Reserve Program (CRP) and the Wetlands Reserve Program (WRP), but no more than one million acres for the WRP. The request for 600,000 acres is therefore consistent with the FACT Act authorization, as well as with the Administration's 1990 Farm Bill proposals as laid out in the Green Book.

In addition, we have already protected over 400,000 acres of wetlands through enrollment in the Conservation Reserve Program. We want to ensure that we are implementing the intent of the 1990 Act for the ECARP, purchasing these rights in the most cost-effective manner, and obtaining restoration that will benefit migratory waterfowl and other wetland functional values to the maximum extent possible.

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QUESTIONS SUBMITTED BY SENATOR BUMPERS

SODBUSTER AND SWAMPBUSTER

Question: How do you think the change in Sodbuster/Swampbuster will alter farming operations and do you contemplate greater administrative branch work under the new rules?

Answer: The FACT Act expanded the programs covered by the highly erodible land conservation (HELC) and Wetland Conservation (WC) provisions. This will likely result in more producers following a Soil Conservation Service (SCS) conservation plan, and greater adherence to WC provisions.

Participating producers are not likely to convert wetlands, because The FACT Act provides that producers who convert wetlands to make possible the production of an agricultural commodity will be considered ineligible for USDA benefits until the converted wetland is restored to its original wetland characteristics. In the past, producers were ineligible for USDA benefits only if planting of an agricultural commodity on a converted wetland took place. Therefore, producers are now more likely to look at the long term implications of any wetland conversion as it relates to USDA benefits. A decision to forego benefits one year and drain a wetland may have significant financial consequences in a future year if the producer wishes to participate in a USDA program.

The new mitigation authority will allow producers with advance approval by SCS to convert a frequently cropped wetland if mitigated by the restoration of a wetland that was converted prior to December 23, 1985. This will allow producers with "nuisance wet spots" to make their farming operations more efficient by using this mitigation authority.

Finally, the tenant exemption rule will allow tenants or renters to limit ineligibility to the farm where a HELC violation occurred, if the landlord refuses to allow compliance with a conservation plan. This will provide tenants or renters more flexibility, if a landlord does not cooperate.

We do expect additional administrative work as a result of the changes in the Sodbuster/Swampbuster provisions. Additional administrative resources will be needed for taking requests and gathering data to make good faith determinations, monitoring violations to determine eligibility for good faith determinations, coordinating withholding and reinstatment of benefits among County Offices and other agencies for good faith relief approvals, processing requests for tenant exemptions and maintaining a public list of all wetland certifications completed by SCS.

SCS will also have additional administrative responsibilities. These include preparing restoration and mitigation agreements, making on-site inspections and determinations of violations for wetland conversion, and providing information regarding crop flexibility, base adjustment, and conservation assistance options that may be available to producers who request assistance in preparation or revision of a conservation plan.

CONSERVATION PROGRAMS

Question: A new signup period was just announced for CRP. There are many farmers in Arkansas who suffered losses due to flooding and other disasters who had hoped to offer lands under the wetland easement and new Environmental Conservation Program.

How soon will you have regulations available to implement these programs?

Answer: Proposed rules for the Wetland Reserve Program are now undergoing clearance within the Department, and publication of these regulations is planned shortly.

The 1990 FACT Act does not provide for an Environmental Conservation Program but does authorize an Environmental Easement Program. However, the Department's budget request for FY 1992 does not include any funding for the Environmental Easement Program. Therefore, we are not preparing proposed rules for this program at this time.

ASCS NATIONAL APPEALS DIVISION

Question: Senator Pryor added a provision to the 1990 Farm Bill to establish a National Appeals Division within ASCS. I understand that this program is to be modeled somewhat after the FmHA appeals system. I can tell you that not too many years ago, many farmers in Arkansas were caught up in a large-scale person determination review and, in many cases, farmers went for months and months while their cases were "pending." Although most of those farmers were finally exonerated, the tragedy was that many went out of business waiting for their appeal to be heard.

Could you please explain the steps you have taken to date to implement this program and how you envision it may work? Do you plan to implement this program?

Answer: Upon enactment of the Food, Agriculture, Conservation, and Trade Act of 1990, we began making plans for the establishment of the National Appeals Division (NAD). Actions taken included preliminary steps in organizational changes which would be required and drafting language for the publication of the proposed rule for the establishment of NAD and specific procedures for the administrative appeals process within ASCS.

We were, however, subsequently advised by the Office of the General Counsel that language included in Section 640 of Public Law 101-506, Making Appropriations for Rural Development, Agriculture and Related Agencies for the Fiscal Year ending September 30, 1991, prohibits the Secretary from establishing any new organizational unit regardless of whether he was required, or merely authorized, to do so until such time as funds are specifically appropriated.

At that time activities necessary to establish NAD were ceased. Producer appeals to ASCS are continuing to be handled under the regulations at 7 CFR Part 780.

DAIRY PROGRAM

Question: Between January 1, 1990, and January 1, 1991, the Minnesota-Wisconsin price for milk dropped $4.44, and the price of milk is now the lowest it has been since 1978 although it is still above the support levels. Many producers need a price in the area of $10.90 just to keep in business and from the farmers I hear from in Arkansas, many are going out of business or are on the brink of failure.

The 1990 Farm Bill includes a provision calling for the Department to offer a proposal for a milk supply management program. I understand that you have received comments from milk producers and organizations on this issue. The Farm Bill calls for a report from the Department no later than August 1. I am afraid that many farmers will be out of business by that time. How soon do you intend to report to Congress on this proposal and is it possible to accelerate that timetable?

Answer: The study process is underway. We received responses from more than 70 individuals or groups and have consolidated and summarized these proposals. By June 1, 1991, the study will be completed and a Federal Register notice requesting public comments will be published. A final report will be submitted to Congress by August 1, 1991, as required. Given the large number of responses and the required public comment period, it would be extremely difficult to accelerate the August 1 due date.

Question: In the past, CCC stocks of dairy products have been used for the Commodity Distribution Program. Over the past few years, however, I understand that some popular dairy products, such as cheese, are no longer being used. Do you have any intention to use more dairy products in the Commodity Distribution Program and how do you think such actions would affect dairy prices?

Answer: Operation of the dairy price support program involves two separate tasks. The first is to support the price of milk through the purchase of surplus dairy products. The second is the management of inventories of those products purchased. Historically, as a part of our inventory management task, we have utilized surplus dairy products in the Commodity Distribution Program. In the past several years, surplus butter has been utilized in the program, but cheese and nonfat dry milk have not been available. Recently, however, the surplus of cheese and nonfat dry milk has started to increase.

It is likely that all three dairy products will again be available for program use. However, we will continue to monitor such use carefully because large, unmonitored distributions could depress dairy product and farm milk prices, particularly if the donations displace commercial sales of dairy products.

PAYMENT LIMITATION

Question: As I mentioned above, Arkansas farmers and agribusiness went through a literal nightmare a few years ago regarding ASCS person determinations. Since that time many changes have been made to the payment limitation rules including changes in the 1990 Farm Bill. I understand that the 5-entity rule will result in 600 cases going for initial determination by the State office in Little Rock. How do you intend for State offices to meet that workload?

Answer: If justified by the volume of required determinations and approved by the area office, then district directors or county office personnel may be detailed to the State office to assist in making determinations for 1991. Additional personnel will be hired for 1992 to make required State office determinations if necessary.

Question: What allowances will you give for recommendations by the county committees?

Answer: The FACT Act requires the State office to make initial determinations of "persons" and "actively engaged in farming" for farming operations consisting of six or more persons. Therefore, county committees may not make or recommend a determination for such cases. To require county committees to make before-the-fact reviews would severely delay the process. We do intend to have county committees review determinations after the fact.

Question: If there are no significant changes from one year to another, will there still be a need for State office action under this rule?

Answer: Yes, payment limitation determinations are required to be made each year. We do intend that State offices be allowed to use existing procedure, which provides that when a producer certifies to little or no change in his operation from the previous year, the determination for the current year is subject to much less scrutiny.

Question: If a plan is disapproved by the State office after the close of signup, will you allow for minor modifications to bring them into compliance?

Answer: The deadline for an approved plan is May 1, 1991. Modifications to bring a plan into compliance may not be made after May 1, 1991.

PAYMENT ELIGIBILITY

Question: Related to person determination, how is the Department implementing the new spousal exemption rules?

Answer: Husbands and wives may qualify as separate "persons" using the same rules as any other individual with one exception. If either spouse has a substantial beneficial interest in more than one entity receiving payment, including interests as individuals, the spouses are combined as one "person" for payment limitation purposes.

Question: How do you intend to allow for use of the spousal exemption when there might otherwise not be any "substantial change" in the farming operation?

Answer: For 1991, the "substantive change" rule is not required to be met if the increase in "persons" is due solely to the revised husband and wife "person" rule.

Question: Will this rule be applied any differently in community-property States?

Answer: In community property States, spouses may still qualify as separate "persons" provided neither spouse has an interest in an entity receiving payment. However, if either spouse has a substantial beneficial interest in an entity earning payment, the spouses would be combined as one "person." The other spouse is automatically considered as having an interest in that entity.

IMPLEMENTATION OF FACT ACT

Question: With the implementation of the new farm bill, there is a great amount of training involved. I have been told that the Arkansas State Office has not yet received a copy of the new payment limitation procedure. What steps have you taken to ensure prompt and adequate training at all levels of the ASCS organization?

Answer: We have approached training our personnel from two fronts. First, we have developed written training materials--National notices--to provide guidance on the major changes to payment limitations. Second, we are conducting training sessions. From February 4 through February 8, 1991, we held training sessions for State Office personnel in Reno, Nevada. Materials provided at these sessions were designed so that attendees, in turn, could conduct training sessions for County Office personnel in their respective states. District Directors and County Executive Directors also have the responsibility of ensuring that employees within their jurisdiction are properly trained.

Question: Do you plan to authorize the use of temporary employees or overtime to gear up for this coming crop year?

Answer: A 1991 supplemental appropriation request was submitted with the President's Budget, which included funds for FACT Act implementation. This supplemental covers new payment limitation procedures. Presently, ASCS is proceeding with 1990 FACT Act implementation on the assumption that supplemental funding will be enacted. This includes hiring temporary personnel and working necessary overtime.

Question: People need information on farm programs as quickly as possible. In many cases, the published regulations only provide an outline with the real details included in the office handbooks. I realize that farmers can receive copies of those handbooks on request, but there is usually some delay in getting those out to the farmers. Why does ASCS not publish all pertinent information

that farmers need to comply with ASCS rules in the federal register?

Answer: We believe that the regulations published in the Federal Register provide enough description of the programs' requirements so that farmers can be in compliance. However, in addition to the Federal Register, ASCS publishes and distributes "fact sheets," which describe in layman's terms program provisions and farmers' responsibilities with regard to these provisions. ASCS also distributes news releases, brochures, radio and television productions, local newsletters to farmers, and articles in local weekly newspapers explaining program provisions.

QUESTIONS SUBMITTED BY SENATOR HARKIN

WATER QUALITY INCENTIVES PROGRAM

Question: How many acres will be enrolled in the program using the proposed $5 million?

Answer: It is currently proposed that producers would be required to enter into 3-year agreements under the Agricultural Conservation Program (ACP) costing around $15 per acre per year, plus an amount for technical assistance. At these estimated rates, about 100,000 acres could be enrolled for the WQIP in FY 1992, since all costs would be obligated in the first year.

Question: What is the Department's plan for implementing the program, and how will the Department reach the enrollment goals of the program?

Answer: The President's FY 1992 Budget designates up to $5 million of the ACP appropriation for the installation of water quality incentive practices as provided for in the Water Quality Incentives Program authorized by Section 1439 of the 1990 FACT Act. Using the ACP as the means of implementing the WQIP, current ACP water quality practices plus other special practices could be offered to meet the requirements of water quality protection plans developed by the Soil Conservation Service. Producers would be required to agree to carry out all activities prescribed in the plan for at least three years.

Question: What do your estimates indicate for the cost per acre of idling land for water quality versus using the incentives program?

Answer: For the first 9 signups under the CRP, the average rental cost per acre was approximately $48.93 per acre for 10 years and $37.53 per acre in cost-share payments for establishing vegetative cover. Depending on the type and amount of commodity base, there may be some indirect savings through reduced commodity program payments.

WQIP payments are estimated at a rate of $15 per acre for 3 years. The cumulative direct costs for CRP are $527 per acre,

compared to an estimated $45 per acre for WQIP. For both programs there are additional administrative costs and costs for technical assistance.

Question: How are we going to address water quality on a broader scale if we do not use the incentives program?

Answer: Current ASCS conservation programs, including the Conservation Reserve Program (CRP), Agricultural Conservation Program, Rural Clean Water Program, and Colorado River Basin Salinity Control Program all provide financial assistance to address water quality concerns. The CRP, for example, annually reduces soil erosion by an estimated 655 million tons per year, which has a direct impact on the quality of water in many areas. These programs play a major role in USDA water quality efforts.

ASCS, SCS, and ES are jointly implementing, through the President's Water Quality Initiative (WQI), programs to specifically target water quality problems. The initiative includes plans to coordinate programs and policies through the Departments of Agriculture, Commerce, and Interior and the Environmental Protection Agency. The initiative was supported with funding increases of $90 million in fiscal years 1990 and 1991, bringing total water quality related activities in USDA to $203 million in fiscal year 1991.

The WQI provides both financial and technical assistance to specific watersheds that are identified in State 319 water quality plans. The WQI provides a wide array of financial assistance to install conservation practices and technical assistance to address water quality problems.

Question: For 50 years the soil conservation effort relied on research and education to little effect. We got results when we provided cost-sharing and we didn't really see progress until conservation compliance in the 1985 farm bill--sort of a negative incentive program. Why should we expect any different experience with water quality--that is, to expect progress without offering some incentives?

Answer: While there is no arguing that conservation compliance was a major positive step in the conservation effort, we believe that real progress was being achieved long before 1985. USDA's cost-share and land retirement programs, such as ACP, have had a significant impact on improving the environment. The purpose of the President's Water Quality Initiative is to demonstrate economically viable and environmentally effective methods of improving water quality. It is a coordinated interagency response that includes research, demonstration and data base components that will provide information to landowners on how to improve water quality. We believe that when presented with these techniques to improve water quality, landowners will voluntarily do what is in their own best interests, which is the prudent long-term protection of their resources. We do not think that additional financial incentives would be necessary to get landowners to do what is right for themselves and their communities and for the land that they manage.

CONSERVATION FUNDING

Question: The Administration budget calls for decreasing the appropriation for the Agricultural Conservation Program (ACP) of cost-share assistance. Yet farmers are right in the middle of implementing their conservation plans. They need money for terraces, waterways, etc. Isn't this a bad time to cut funding?

Answer: The FY 1992 requested funding level for the ACP will address priority traditional soil and water conservation measures and will support water quality practices at an increased level.

The ACP pre-dated conservation compliance. It has never been intended to assist farmers with the conservation compliance provisions of the law. Congress did not make compliance with those provisions contingent on the availability of Federal funds for practice installation, nor did it provide funding for that purpose.

ACREAGE CONSERVATION RESERVE (ACR) REQUIREMENTS

Question: USDA has proposed changing the rule concerning the requirements for land designated as set-aside, or ACR acres. Under the prior rule, erosion control strips and terraces would qualify for set-aside acres if they were part of a conservation plan. The new rule would require set-aside land to be at least 5 acres and 66 feet wide. Headlands and turn rows will no longer qualify for set-aside if they do not meet these size standards. I am concerned that the new rule will lead to increased erosion, greater burdens on farmers and lower farm program participation. Why not continue the existing rule on qualifications for set-aside land?

Answer: The rule requiring set-aside land to be at least 5 acres and 66 feet wide is not a new rule. However, over time, exceptions to this rule were allowed which tended to undermine the purpose of the ACR. Therefore, the proposed rule currently being publicized for comment changes or, in some cases, limits the exceptions to the minimum 5 acres and 66 feet wide requirement so that the goal of the ACR, which is to remove land from production that otherwise would have been cropped, is preserved. We will closely review the comments received.

INTEGRATED FARM MANAGEMENT PROGRAM OPTION (IFMPO)

Question: I am very concerned about the proposed regulations for the IFMPO program. I understand that the USDA has decided to enroll only 3 million acres, far below the maximum amount set in law. What are the reasons for this position?

Answer: Section 1451(d) of the FACT Act provides that not less than 3 million nor more than 5 million acres be enrolled in the IFMPO. The proposed regulation would adopt the legislated acreage enrollment goal of 3 million acres. The selection of the lower acreage enrollment goal is due, in part, to the provisions in the FACT Act which now offer greater planting flexibility options to producers to encourage the adoption of resource stewardship practices. We will carefully review the comments received regarding our acreage goals.

Question: I have received reports from constituents that ASCS offices have no information or forms concerning this program. When will materials be available to farmers and what will be included in those materials?

Answer: Materials were released to State offices on March 1, 1991.

Question: I understood that haying and grazing would be allowed on set-aside acres for farmers enrolled in the IFMPO except in special circumstances. Why did the USDA choose to reverse the haying and grazing provisions?

Answer: We have tried to design haying and grazing provisions to be consistent in our treatment of the acreage reduction program (ARP) and the IFMPO program. Statutes for the ARP specifically prohibit haying and grazing during the 5-month nonhaying and nongrazing period. In restricting haying and grazing, we are also trying to prevent adverse economic impacts on hay or livestock producers. While haying and grazing is permitted on 50 percent of the acreage enrolled in the Acreage Conservation Reserve, we believe that the acreage amount involved is small enough so that participation in the IFMPO overall will not be discouraged.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

COTTONSEED AND COTTONSEED PRODUCTS

Question: The 1990 Farm Bill included a provision requiring USDA to develop a program to offset any decline in the value of cottonseed and cottonseed products resulting from implementation of new programs. What action has the Department taken to monitor the movement of cottonseed and cottonseed product values?

Answer: Section 507 of the Food, Agriculture, Conservation, and Trade Act of 1990 (the 1990 Act) amended Section 203 of the Agricultural Act of 1949 as follows:

"Sec. 203. COTTONSEED AND COTTONSEED OIL PRICE SUPPORT.
(a) In general.--If the Secretary determines that any oilseed program or programs cause, or are likely to cause, a reduction in prices received by producers for cottonseed or by processors for cottonseed oil, the Secretary shall take such actions as are necessary to offset the actual or anticipated impact of the program on prices for cottonseed or cottonseed oil. The actions shall only include actions to stabilize or increase the price of cottonseed, and shall not include actions to decrease the prices of other oilseeds."

Let me first point out that your question refers to "cottonseed and cottonseed product values." However, the statutory language in the 1990 Act refers only to "cottonseed or cottonseed oil" and therefore does not include products other than oil as your reference to product would imply.

As in the past, we will continue to monitor and estimate cottonseed and cottonseed product prices, supplies, and demands. We will also seek to assess whether oilseed programs are causing changes in the production and prices of oilseed and related products. From that, we will determine whether oilseed programs or developments in the cotton and fibers and oilseeds markets are affecting or are likely to affect cottonseed or cottonseed oil prices over the course of a marketing year.

With no history of how the oilseed price support/marketing loans and the 0/92 wheat and feed grain provisions affect oilseed and oilseed product production and prices, it is difficult to assign a cause and effect of oilseed programs on cottonseed and cottonseed oil prices at this time. Our current judgment is that the domestic oilseed market is and will continue to be dominated by soybeans and its products.

Furthermore, bullish prices for cotton at the current time lead us to believe that cotton production will increase in 1991. This belief is supported by USDA's initial 1991 Planting Intentions report released February 11. The anticipated cotton production increase is expected to have the major impact on cottonseed and cottonseed oil prices for the forseeable future.

EMERGENCY MEASURES

Question: As you know, Mississippi as well as other parts of the country have encountered severe damage caused by freezing, flooding, and drought. Do you have any estimates you could share with us on the needs for rehabilitation? Please provide for the record needed amounts by project and State, and advise how you are addressing these needs.

Answer: Except for the drought in California, we have had no indication of forthcoming requests for the rehabilitation of damaged lands. Our California State ASCS Office estimates that approximately $300,000 will be requested in the near future to address eligible needs relating to the drought in their State. Funds at the national level are currently available to meet this need.

QUESTIONS SUBMITTED BY SENATOR KASTEN

WETLANDS RESERVE PROGRAM

Question: Mr. Crowder, I am really looking forward to the implementation of the Wetland Reserve Program we authorized last fall. I am concerned over the delays in starting this program, but understand implementing all the changes in the 1990 Farm Bill is a big task. I am disappointed that you did not see fit to start purchasing easements and restoring wetlands.

With the funds you are asking for FY 1992, how many acres are you planning to purchase easements on and how many acres of wetland do you plan to restore?

Answer: The requested appropriation of $124.3 million is deemed adequate to acquire easements on approximately 150,000 acres. Of this amount, depending on the location of these acres, we expect at least 50 percent of the enrolled acres to be wetlands. The balance of these acres will protect the restored wetland area, enhance the upland wildlife habitat area, and improve the quality of our environment.

Question: Mr. Crowder, the 1990 Farm Bill authorized a 1,000,000 acre Wetland Reserve Program. You will recall that his figure was a compromise from figures as high as 5,000,000 acres. I understand the Department has only budgeted for a 600,000 acre program over the next four years, not the 1 million specified in the law. Now that we finally have an opportunity to provide our farmers with a carrot for wetlands conservation, the Department is holding back on delivering the product.

Is this true and can you explain your justification?

Answer: The FACT Act mandates at least 40 million acres for the Environmental Conservation Acreage Reserve Program (ECARP), which includes both the Conservation Reserve Program (CRP) and the Wetlands Reserve Program (WRP), but no more than one million acres for the WRP. The request for 600,000 acres is therefore consistent with the FACT Act authorization, as well as with the Administration's 1990 Farm Bill proposals as laid out in the Green Book.

In addition, we have already protected over 400,000 acres of wetlands through enrollment in the Conservation Reserve Program. We want to ensure that we are implementing the intent of the 1990 Act for the ECARP, purchasing these rights in the most cost-effective manner, and obtaining restoration that will benefit migratory waterfowl and other wetland functional values to the maximum extent possible.

Question: What do you figure will be the average cost per acre of wetland restored under this program? Please provide a breakdown of these costs by actual land cost (what the landowner gets), legal and other costs associated with completing and recording the easement, technical assistance costs for development of the restoration plan and supervising construction.

Answer: Our analysis of operating an easement program indicates that the land cost will be in the range of $350 to $1,000 per acre with an average of $520 per acre for easements paid in a lump sum and $650 per acre for easements paid over ten years. In addition, restoration costs will vary depending on the amount of adjacent lands acquired and the amount of structural or earth moving required. The range is projected from $30 per acre to $200 per acre for an average of approximately $120 per acre. Producers would receive the entire easement cost plus up to 75 percent of the restoration costs for granting an easement.

Soil Conservation Service technical assistance costs for development of the plan and supervising construction are estimated at approximately $124 per acre.

Legal costs, including surveys, appraisals, title work, and easement recording will be approximately $1,500 per easement, assuming the average easement area will be 20 acres in size, or about $75 per acre.

QUESTIONS SUBMITTED BY SENATOR NICKLES

FEDERAL CROP INSURANCE

Question: There has been much speculation as to the future role ASCS will play in the sale and service of federal crop insurance.

Can you please comment on this subject?

How much additional funding would be needed to provide sufficient staff and support to administer crop insurance from ASCS county offices?

Answer: As directed by Congress in the FY 1991 Appropriations bill report, ASCS has been communicating with FCIC regarding their efforts to improve the crop insurance program and reduce costs. These discussions include ASCS taking on increased responsibilities in the delivery of crop insurance. We hope to conclude discussions in April and at such time we will have a better understanding of the estimated funding and staff years required to properly administer appropriate ASCS responsibilities.

FEDERAL-STATE COOPERATION IN WAREHOUSE EXAMINATION AGREEMENT

Question: Oklahoma is one of several cooperative States who, under contract with CCC, provide warehouse examination services to the federal government. Recently, Oklahoma Department of Agriculture employees were asked to sign a procurement integrity document which they believe they should not be required to sign.

On February 28, the Oklahoma Department of Agriculture received a letter from Gary Martin, ASCS Commodity Operations, stating that their contract was being terminated. I also understand that at least 14 other States are also having their contracts terminated for the same reason.

Can you please tell me why these State employees are subject to Federal procurement policies?

If all the cooperative States' contracts are terminated, what will be the additional cost to CCC to perform these warehouse examinations on their own?

Answer: The Commodity Credit Corporation (CCC) contracts with warehousemen in the State of Oklahoma for warehousing services. In contracting for warehouse services, CCC is subject to the laws governing procurement of goods and services by agencies of the U.S. Government. CCC's purpose in conducting warehouse examinations, including those performed by the State of Oklahoma under our Cooperative Agreement, is to protect CCC's interests and to ensure

compliance with the terms of the storage agreements that CCC has with warehousemen. A warehouse examination conducted for CCC is an integral part of the procurement process, and each employee, whether a U.S. government employee or an employee of the State, performing services for CCC has been determined by the U.S. Department of Agriculture to be subject to the Procurement Integrity Act. Compliance with the Procurement Integrity Act requires each employee to sign a certification of procurement integrity. The State of Oklahoma has refused to have their employees sign these certification statements and CCC would be in violation of the Act by continuing the cooperative agreement with the State.

CCC collects a contract fee from warehousemen which is designed to offset the cost of the examination program. However, CCC waives the collection of some fees in States having a cooperative agreement and pays to the State agency a fee equal to about 1/2 the cost of CCC conducting examinations at those warehouses. If a State were to terminate the cooperative agreement, CCC would collect the full fee from warehousemen in the State, thus CCC would not incur any additional net cost.

QUESTIONS SUBMITTED BY SENATOR BOND

CRP ALLEY-CROPPING

Question: Alley-cropping is a provision which I put into the 1990 Farm Bill under the CRP program. Both the 1985 and 1990 Farm Bills stated that not less than one-eight of the land enrolled in CRP should be planted to trees. Currently there are 33,922,565 acres enrolled in CRP and only 2,179,292 planted to trees. That is 2 million acres short. Allowing alley-cropping on land that is already in CRP would go a long way to help make up that 2 million acres. Since alley-cropping was my provision, I can assure you of its intent and that was to allow all past, present and future acreage enrolled in CRP eligible for alley-cropping. Not only would have alley-cropping brought trees into the program but would also cut those annual payments in half. I don't see how we can justify an increase in funding for CRP until we get serious about long term conservation practices. I also question how serious you are about the CRP program when signup started on Monday and Regs didn't make it out until Wednesday.

Why or how did you come up with only newly enrolled acreage being the only land eligible for alley-cropping?

Answer: The alley-cropping provision is discretionary and is included in Section 1433 of the 1990 FACT Act. Section 1435, Conversion of Land Subject to Contract, provides the authority to convert acreage already under contract to a different cover type and allows the owner or operator to extend the contract up to 15 years. The practices eligible for conversion are only vegetative cover practices. The uses that may be made of the converted area are: hardwood trees, windbreaks, shelterbelts, or wildlife corridors. Since there is not a reference to alley-cropping in this section of the FACT Act, alley cropping was not included as an eligible practice when the proposed rules were issued.

Furthermore, the section of the Act that authorizes alley-cropping requires owners and operators requesting this practice to implement appropriate conservation practices concerning such land. Since producers with land previously enrolled in the CRP have already implemented appropriate conservation practices on the contracted acreage, we did not believe it would be prudent to permit the loss of benefits already obtained on the contracted acreage.

However, we are currently within a 15-day comment period for our proposed rule concerning alley-cropping and plan to take another look at the issue when all comments have been received.

Question: Wasn't the real purpose to continue to leave that land out of production?

Answer: The CRP was included in the 1985 Food Security Act to assist owners and operators of highly erodible cropland that cannot continue to be farmed in an acceptable manner in reducing the Nation's serious erosion problems. The program provides participants an opportunity, through annual payments, to install needed conservation measures on such land during the contract period, so that the land can be farmed in an acceptable manner after contract expiration. Land converted to trees, in most instances, is assumed to be removed from production permanently.

Question: Wouldn't alley-cropping help the President meet his goal of a billion trees planted in America the Beautiful?

Answer: While any trees planted would help to reach the goal, we believe that the most effective use of Federal dollars is by cost-share assistance through the America-the-Beautiful program. Providing cost-share assistance and annual rental payments is a much more costly way of reaching the same goal.

FOREIGN AGRICULTURAL SERVICE AND OFFICE OF GENERAL SALES MANAGER

QUESTIONS SUBMITTED BY SENATOR BURDICK

EXPORT ENHANCEMENT PROGRAM

Question: For what percentage of total U.S. agricultural exports would you say EEP is responsible?

Answer: The value of U.S. agricultural exports assisted by the EEP was approximately $3.3 billion in fiscal year 1988, $2.8 billion in fiscal year 1989, and $2.4 billion in fiscal year 1990. This represents 9, 7, and 6 percent, respectively, of total U.S. agricultural exports in those years.

Question: I know that the EEP program has been used to a large extent for wheat. You and I know that wheat prices are currently as low as they have been for many years. There are allegations that EEP in fact has lowered farm income because it has forced lower prices in the world market. How do you respond to that?

Answer: Such allegations are unfounded. In fact, the EEP has a positive effect on farm income. While it is true that EEP places more U.S. commodities on the world market than would otherwise be the case and thereby has a downward effect on world market prices, the movement of those commodities off of the U.S. domestic market has a strengthening effect on domestic prices received by U.S. farmers. In instances where they are different, as is the case with wheat, the domestic price, not the world price, is the price U.S. farmers receive for their products. Moreover, the income of U.S. producers of program commodities is further protected from low world or domestic prices by federal support program payments.

Question: It has also been alleged that EEP really benefits the grain trade and it is the large grain exporters who profit from EEP, not the producers. How do you respond to that?

Answer: This allegation is also unfounded. The per unit value of the EEP bonuses awarded to exporters under the program is provided at a level which only offsets the difference between the higher U.S. price the exporter pays for the commodity and the lower world price he sells it for in the targeted overseas market. The monetary benefit of the EEP award flows ultimately to the U.S. producer in that it allows his product to be sold to the exporter at a price higher than the price he would receive for it on the world market. For example, in January of this year, grain exporters paid U.S. providers of wheat an average of about $115 per ton at export locations for wheat they sold to foreign buyers for an average of about $70 per ton. That difference is money straight into the pockets of U.S. producers.

IRAQI LOANS

Question: What is the exposure the U.S. Government has in relation to GSM loan guarantees for Iraq?

Answer: As of August 2, 1990, the date of Iraq's invasion of Kuwait, the Commodity Credit Corporation's potential liability with Iraq under the GSM-102 and 103 Export Credit Guarantee Programs totaled approximately $1.9 billion.

Question: What is the extent of this exposure?

Answer: If Iraq continues to default on its payments, the Corporation would be liable to pay the U.S. financial institutions holding the guarantees the entire amount, assuming all claims received are submitted in good order in accordance with the regulations.

Question: Are we seeking to collect this amount from Iraq as part of our settlement of the Persian Gulf War?

Answer: We have provided the Office of Foreign Assets Control at the Department of Treasury with information relating to CCC's potential claim liability under the program, as well as information relating to claims the Corporation has already received and paid. We understand Treasury will take the lead and initiate any action to collect on payments made by CCC under the program relating to Iraqi defaults.

Question: I understand that an Italian bank in Atlanta was involved in the bulk of the Iraqi transactions. Do you know what percentage of the total number of GSM transactions went through this bank?

Answer: The bank to which you refer is Banca Nazionale Del Lavoro located in Atlanta, Georgia. As of the date of the invasion, the amounts still owed to this bank by Iraq under the GSM-102 and 103 programs totaled approximately $347 million, or 18.2 percent of the total amounts due from Iraq under the programs to all U.S. banks. Banca Nazionale Del Lavoro is actually the second largest participant, based on all banks' exposure with CCC on the date of the invasion.

Question: Was that bank also involved in any significant way with GSM sales to any other country? If so, what country was involved and what is the exposure of the U.S. Government?

Answer: Yes. Banca Nazionale Del Lavoro also participated in several other countries under the GSM programs. I will provide for the record a table showing participation by country, in millions of dollars.
[The information follows.]

Tunisia	$7.9	Egypt	23.7
Hungary	3.5	Jordan	59.5
Algeria	112.4	Mexico	20.9
Turkey	14.1		

MARKET PROMOTION PROGRAM (MPP)

Question: Have you implemented MPP regulations? If not, when will they be out?

Answer: MPP regulations have been drafted and are in the Departmental clearance process. When this clearance is complete, they will go to the Office of Management and Budget and finally the Federal Register. We anticipate Federal Register publication in mid-May.

INVESTIGATIONS AND STUDIES

Question: How many ongoing investigations and studies do you have regarding FAS programs at this time?

Answer: According to FAS records there are a total of 41 studies, audits and investigations involving FAS currently being conducted by the General Accounting Office and the USDA Office of Inspector General. In addition, FAS is in the process of reviewing the results of 27 previously completed reviews conducted by GAO and USDA, OIG.

These figures do not include the regularly scheduled reviews of FAS programs conducted by the 10 person FAS Compliance Review Staff.

Question: Who has requested the studies?

Answer: Twenty-six of the ongoing reviews are being conducted by the GAO. A table showing the areas under review and the Congressional requesters is provided for the record.
[The information follows.]

Ongoing GAO Reviews of FAS Activities

GAO Review Title	Requested By
Sugar Program	Representative Schumer
Agricultural Exports and Bolivia	House Committee on the Judiciary Subcommittee on Criminal Justice Chairman Schumer
U.S. Financial Institutions Participating in GSM-102/103	Chairman Schumer
Effectiveness of the TEA Program	Chairman Schumer and Chairman Wise
Review of Agricultural Trade Offices	House Committee on Government Operations - Subcommittee on Government Information, Justice & Agriculture Chairman Wise
Effectiveness of USDA Sponsored Agricultural Trade Shows	Chairman Wise
Former Federal Trade Officials Representing Foreign Interests in the U.S.	Representatives Kaptur, Wolpe, Guarini, and Wolf

GAO Review Title	Requested By
Cigarette/Tobacco Trade and Advertising to the Far East	House - 20 Members
Evaluation of Wheat Prices	Representative Dorgan
Review of U.S. Economic Assistance to El Salvador	House Committee on Foreign Affairs Chairman Crockett
Soviet Agricultural Reform: Implications for U.S. Agricultural Interests	Senate Committee on Agriculture, Nutrition, & Forestry Chairman Leahy
Ability of Pacific Rim Countries to Detect Pesticides in Food	Senate Committee on Agriculture, Nutrition, & Forestry Subcommittee on Agricultural Credit Chairman Conrad
Canadian and Australian Wheat Boards Reaction to EEP	Senate Committee on Agriculture, Nutrition, & Forestry Subcommittee on Domestic and Foreign Marketing and Product Promotion Chairman Boren
U.N. Sanctions in the Persian Gulf	House Committee on Armed Services Chairman Aspin
U.S. Economic Assistance to Eastern Europe	"Legislative Responsibility"
Marketing Timber for Export	GAO
USDA: Strengthening Management Systems to Support Departmental Goals	GAO
Accuracy of Corn, Wheat, Cotton, Soybean and Dairy Commodity Forecasts	Senator Kerrey
Accuracy of USDA's Forecasts and Estimates of Meat Production, Prices and Inventories	Senator Kerrey
Agricultural Trade Liberalization Between the U.S. and Mexico	House Committee on Agriculture Chairman de la Garza
Dairy Cattle Exports Under Cooperator Programs	House Committee on Agriculture Chairman de la Garza
Mandated Use of Ethanol	House Committee on Energy and Commerce - Subcommittee on Energy Conservation and Power

GAO Review Title	Requested By
Generic Research and Promotion Orders for Fresh Fruits and Vegetables	House Committee on Agriculture Subcommittee on Domestic Marketing, Consumer Relations & Nutrition
U.S.- Mexico Border Infrastructure	Senate Committee on Finance Chairman Bentsen
Evaluation of International Agricultural Proposals to Harmonize Health & Food Safety Standards	Senate Committee on Agriculture, Nutrition & Forestry Chairman Leahy Senator Lugar
How the U.S. Manages Trade Issues	Senate Committee on Governmental Affairs Ranking Minority Member

The remaining 15 ongoing reviews are being conducted by the USDA Office of Inspector General. These reviews resulted from the OIG planning process.

Question: How much time would you estimate is spent pursuing these inquiries into FAS program operations?

Answer: FAS does not have complete information concerning the specific amount of time spent by the review agencies on FAS programs. However, FAS estimates that the review agencies average two staff-years per project. This estimate is based upon the length of time the reviews take, which currently average 12 months, and the number of reviewers assigned to each project.

Using this estimate, a total of 82 staff-years will be spent by the review agencies pursuing inquiries into FAS programs. This does not include the time required of FAS staff resources to accommodate the ongoing reviews through interviews, discussions, providing requested documentation or replying to draft and final reports.

EMERGING DEMOCRACIES

Question: I note that you intend to use $200 million of export credit guarantees for emerging democracies. You may use GSM-102, GSM-103 or facility financing under the 1990 farm bill. Please explain how the facility financing program would work.

Answer: Under Section 1542 of the Food, Agriculture, Conservation, and Trade Act of 1990, the Commodity Credit Corporation--CCC--is to make a portion of the export credit guarantees available for the establishment or improvement by U.S. persons of facilities in emerging democracies to improve the handling, distribution and marketing of food, if the Secretary of Agriculture determines that such guarantees will primarily promote the export of U.S. agricultural commodities.

Criteria must be established for utilization of credit guarantees for facilities. New regulations would have to be published. Funding would come from credit provided by the U.S.

commercial bank and guaranteed by the CCC for the building or improvement of facilities. Direct CCC outlays would not be involved, unless payments were not received by the bank as scheduled and the CCC were required to meet its guarantee commitment.

Under the emerging democracies legislation, experts in the U.S. private sector and other federal agencies, e.g., the Overseas Private Investment Corporation or Export-Import Bank, would be called upon to advise the CCC in providing credit guarantees for facilities financing.

USDA is considering a very limited program of credit guarantees, through a small-scale pilot project, for the financing of facilities in emerging democracies.

It will be necessary to contact U.S. commercial banks early on to ascertain their willingness to participate in facilities project financing. If the first project is undertaken in Eastern Europe, all precautions will be taken to demonstrate that the project clearly benefits the United States rather than the European Community.

ENTERPRISE FOR THE AMERICAS INITIATIVE

Question: What amount of debt, for what programs, and for what countries, are you proposing to forgive under the EAI in 1992?

Answer: The Enterprise for the Americas Initiative provision enacted by the Food, Agriculture, Conservation and Trade Act of 1990 currently authorizes debt restructuring only for the Public Law 480 Title I program. The FY 1992 President's Budget includes a request of $668 thousand to reduce P.L. 480 debt valued at approximately $1.7 million. The determination to restructure and reduce P.L. 480 debt will be made on a case-by-case basis. As provided for in the authorizing statute, in order for a country to be eligible for EAI debt reduction, it must undertake a number of economic and investment reform measures. Recently, the Administration submitted a proposal to Congress to authorize the restructuring of AID development assistance debt and to allow debt-for-equity and debt-for nature swaps for other U.S.-held foreign debt. The proposal includes a request for $309.08 million in budget authority for restructuring loans made by the Agency for International Development and debt swaps for debt issued by the Export Import Bank and CCC for the export credit guarantee programs. Of this amount, about $15 million is expected to be used for debt swaps under the CCC export credit guarantee programs.

Question: What are the budgetary ramifications of this proposal both in the short and long term?

Answer: In the short term, there is a budgetary cost involved in restructuring and reducing debt. In FY 1992, the estimated budgetary cost is $668 thousand to reduce approximately $1.7 million of P.L. 480 debt. As a result of credit reform procedures enacted by the Budget Enforcement Act of 1990, the calculation of this cost is based on the difference between the net present value of what was expected to be collected under the original loan and the net present value of payments under the restructured debt.

In the long term, there are two major budgetary ramifications. First, with respect to P.L. 480 this proposal means that we are forgoing some future P.L. 480 loan receipts. However, it is highly likely that these repayments, while scheduled under the original terms, would have been seriously delayed as a result of difficulties experienced by these countries in servicing their debt in a timely fashion. Furthermore, under the Budget Enforcement Act of 1990, these receipts would not have been applied to the international affairs discretionary spending cap. The cost of forgoing these receipts is captured in the $668 thousand budget authority request. A second but positive long-term ramification is that by providing debt restructuring and reduction under EAI, Latin American and Caribbean nations may be in a better financial position to adopt investment growth programs and strengthen their environmental policies.

GSM DEBT

Question: Mr. Dickerson, you indicate in your testimony that you are increasing your risk analysis capabilities and efforts in regard to the export guarantee programs. Isn't the Enterprise for the Americas Initiative an admission that past guarantees have been extended to countries that could not adequately service their CCC-guaranteed debts?

Answer: The Enterprise for the Americas Initiative came in response to serious international debt problem crated by a series of world economic events, international lending policies and individual country monetary and fiscal policies that now require restructuring and investment reforms. The roots and dimensions of the debt program in Latin American and Caribbean countries are substantially broader than the CCC export credit guarantee programs. We recognize that CCC debt with several Latin American and Caribbean countries has come about within the context of the overall problem. We are working with countries that have debts with CCC to assure that these debts are serviced.

Question: Can you provide for the record a list of outstanding GSM debt by country, its status with regard to being current, and the adjustments that have been made to initial guarantee contracts.

Answer: I will provide for the record a table showing the outstanding GSM debt by country, its current status and adjustments made to initial guarantee contracts.
[The information follows.]

CCC EXPORT CREDIT LOAN PROGRAMS

GSM-5, GSM-102, AND GSM-103

AS OF 1/31/91

Country	Outstanding CCC Debt (a)	Current?	Arrears (b)
Bangladesh	$1,061	No	$1,061
Brazil	157,211,887	No	87,388,328
Chile	67,700,320	No	3,632
Dominican Rep	202,837,042	No	131,199,999
Egypt	231,145,936	Yes	
El Salvador	1,157,762	Yes	
Honduras	13,106,126	Yes	
Iraq	87,822,412	(c)	
Jamaica	45,098,386	No	2,449,602
Jordan	6,663,027	No	158,675
Mexico	384,067,446	Yes	
Morocco	125,863,981	No	1,290,622
Nigeria	128,523	Yes	
Panama	1,114,529	Yes	
Peru	343,243,346	No	122,225,169
Philippines	39,009,420	Yes	
Poland	3,149,428,263	Yes	
Sudan	97,197,218	No	56,295,544
Turkey	38,692	No	38,692
Zaire	12,953,827	No	1,386,699
Zanzibar	4,021,509	Yes	
PROGRAM TOTALS	$4,969,810,714		$402,438,024

a) Includes principal only of GSM Export Credit Guarantee programs (GSM-102 and GSM-103) as well as the prior GSM loan program GSM-5. The figures includes reschedulings, claims paid by CCC and not yet repaid by the country, and arrears.

b) Payments due CCC by a prior date but not paid.

c) Iraqi claims have not been rescheduled and so there is no repayment schedule and technically there are no arrears at this time.

Question: What has been the annual CCC exposure or loss for the last ten years?

Answer: I will provide for the record a table showing annual exposure or loss by CCC for the last ten years.
[The information follows.]

COMMODITY CREDIT CORPORATION
CLAIMS PAID BY CCC UNDER THE GSM 101/102/103 PROGRAMS, FY 1981-FY 1990
(DOLLARS IN THOUSANDS)

COUNTRY	FY 1981	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	Oct-Dec FY 1991 1/	TOTAL
BRAZIL				196,886	22,188							219,054
CHILE					7,643	91,550	35,897	1,988				137,078
DOMINICAN REPUBLIC				43,981	59,447	24,382	15,785					143,595
EGYPT							35,235	190,607	38	731		226,611
EL SALVADOR											1,158	1,158
HONDURAS									2,345	8,474	2,555	13,374
IRAQ											87,822	87,822
JAMAICA					36,374	17,990	33,744					88,108
JORDAN										5,192	1,312	6,504
MEXICO							300,917	83,416				384,333
MOROCCO				82,436	14,105	76,406						172,947
NIGERIA		1,496										1,496
PANAMA						2,086	1,134					3,220
PERU				116,160	20,641	99,539	43,117	12,681				286,138
PHILIPPINES					12,850	16,301	12,278					41,429
POLAND	61,211	357,318	355,855	229,092	8,242							1,011,718
ROMANIA		9,199	8,929	16,327								34,455
SUDAN		25,634	6,392	22,177								54,203
YEMAN										532		532
ZANZIBAR									2,054	1,967		4,021
TOTAL	61,211	393,647	371,176	701,059	181,470	328,254	478,107	288,692	4,437	16,896	92,848	2,917,796

1/PRELIMINARY

PUBLIC LAW 480 (P.L. 480)

Question: You indicate that the program level for P.L. 480 is somewhat reduced from this year, and that this level will provide for total commodity shipments of nearly 6 million metric tons. Isn't your reduction actually well over 10 percent?

Answer: For fiscal year 1991, our P.L. 480 program level is currently estimated at $1576.0 million and we are projecting commodity shipments of about 6.6 million metric tons. In fiscal year 1992, the budget provides for a program level of $1400.0 million which we currently project will permit shipment of about 5.9 million metric tons. This is about an eleven percent reduction from the current tonnage projected for shipment in fiscal year 1991.

Question: What level of commodities are you shipping in 1990 and how does that compare to your 1992 estimate.

Answer: In fiscal year 1990, commodities shipped under P.L. 480 were estimated at 6.3 million metric tons. For fiscal year 1992, the budget provides a total program level of $1400.0 million for P.L. 480 which we currently project will permit shipment of about 5.9 million metric tons. This is about 400,000 metric tons less than the fiscal year 1990 level.

Question: Your explanatory notes do not give any explanation for the reduction in program level. What is the justification for the decrease? Is the need reduced? Is the demand down? Is our will to provide food assistance reduced? Or is the President's emphasis for international affairs functions shifted to other programs? If so, which ones?

Answer: The reduction in program level in fiscal year 1992 reflects an attempt to achieve a balance among: providing needed food assistance to low income countries overseas; complying with the budget ceiling established for Function 150 international affairs activities; and meeting the U.S. federal budget deficit target. Projections indicate a favorable outlook for production and stock levels in many of the low income P.L. 480 recipient countries in fiscal year 1992. This is coupled with expectations that commodity unit prices will be down allowing commodity shipments under P.L. 480 to remain at or near previous years, with the lower program level. Of course, actual shipments will depend on freight costs as well as commodity price levels.

SUNFLOWER OIL ASSISTANCE PROGRAM

Question: Please summarize the activities under the sunflower oil assistance program to date. Include the amounts of money made available, the amount used, for what countries, the amounts of oil, and dates.

Answer: The SOAP has been authorized in each of our annual appropriations acts since 1988.

Egypt and Algeria have thus far been targeted by USDA under SOAP.

In fiscal year 1989 USDA spent $8,150,975 of the $10 million mandated for fiscal years 1988 and 1989. This supported the export of 54,300 metric tons of sunflowerseed oil to Egypt.

In fiscal year 1990 USDA spent $3,788,657 of the $20 million mandated for fiscal years 1989 and 1990. This supported the export of 27,000 metric tons of sunflowerseed oil to Algeria.

Question: What are the prospects for SOAP in fiscal year 1991?

Answer: To date in fiscal year 1991 expected purchases of bonus sunflowerseed oil total $6.6 million. Purchases of cottonseed oil under the COAP total $4.8 million. From a total allocation of $30 million available for the two programs, this leaves a balance of about $18.6 million. Algeria is currently eligible for SOAP and Egypt for SOAP and COAP.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

VALUE-ADDED PRODUCTS IN THE GSM-102 PROGRAM

Question: The GSM program offers opportunity to move U.S. farm products into new markets that are now opening to us in Eastern Europe and other parts of the world. The recent $1 billion package to the Soviet Union was a step in the right direction by not letting these markets go to our competitors wholesale. I noted, however, that little of the products in that transaction were value-added. For example there was only $25 million in poultry and nothing in milled rice, or for that matter, rice of any kind. I realize that you must be sensitive to buyer demand in these cases, but what are you doing to promote value-added products in GSM sales?

Answer: The Export Credit Guarantee Program--GSM-102--has successfully aided exports of U.S. value-added products in a number of countries. Mexico imports approximately $200 million in value-added products annually under GSM-102. The Soviet Union has used GSM-102 credit guarantees to buy poultry, soybean meal and, more recently, almonds, for a total value of $163 million. However, the GSM-102 program helps U.S. agricultural exporters sell their products in countries that represent a somewhat higher commercial credit risk, and most of these countries choose not to spend costly foreign exchange on value-added products when they can purchase greater quantities of bulk commodities for the same value. Because CSM-102 is a commercial program, the importer will largely determine the commodity mix of the program, since it is the importer that must ultimately pay for the credit.

Nevertheless, during development of a GSM-102 program USDA does encourage importers to consider as many different commodities as possible. In fiscal year 1991, approximately $453 million has been allocated to cover 10 different value-added products in 17 different countries. As Eastern Europe, the Soviet Union and other agricultural importing countries open new agricultural import markets, the USDA will continue its efforts to use GSM-102 programs to promote U.S. agricultural exports--including value-added products.

EXPORT ENHANCEMENT PROGRAM

Question: Although much attention is given to the European Community in regard to unfair competition, I point out that our challenges do not come from the Europeans alone. We also face unfair and stiff competition from South America, Asia, and other parts of the world. How many countries outside the European Community have been the cause for the implementation of the Export Enhancement Program? How effective have those sales been?

Answer: While various countries in South America and Asia use what some consider to be unfair trade practices in selected commodity areas, the extent and magnitude of these practices have not been as pervasive or consistent as those of the European Community. Moreover, one of the major objectives of the Export Enhancement Program is to apply pressure on those trading partners which are resisting global agricultural trade reform in the GATT negotiations. Many of the agricultural exporting countries of the world, other than the EC, support the U.S. position in the trade talks and, like the U.S., are willing to eliminate unfair trade practices as part of a multilateral agreement. Targeting those countries under EEP would do little to advance, and could easily undermine, U.S. trade policy objectives in the negotiations.

The European Community subsidizes the export of virtually every agricultural commodity it produces and EC subsidies are generally provided on a world-wide basis and not limited to specific countries. Consequently, there are few, if any, markets which meet the EEP criteria in which other traditional subsidizing exporters have a significant presence but in which the EC has not had or could not also have a presence. Thus, every EEP initiative we have launched has had the EC as, at least, one of its targets. For example, in several of our wheat initiatives, the eligible countries had imported subsidized wheat from Sweden or Saudi Arabia in addition to the EC. In those instances, the initiative is designed to challenge all subsidized exports in that market.

COTTONSEED OIL ASSISTANCE PROGRAM

Question: There is a provision in the 1990 Farm Bill to broaden the use of COAP assistance and, in particular, use the COAP program regardless of the source of subsidized competition. Please explain what steps are being taken to ensure compliance of this provision and please provide a list of countries eligible for COAP assisted sales which have been recommended by the industry but not approved for COAP sales.

Answer: The Department is currently reviewing the operation of the COAP in light of the provisions of the Food, Agriculture, Conservation, and Trade Act of 1990, taking into consideration the current supply situation for cottonseed oil. However, we continue to believe that the first priority for countries to be targeted under the COAP should be based on the position of subsidized exporters in the market. We will continue to monitor the expenditure of funds under the COAP and review the inclusion of additional markets as necessary and appropriate. The Department is always receptive of suggestions from the trade regarding potential markets to be included under the COAP. Egypt is currently the only

country targeted under the COAP. Other countries have been recommended by the trade, and their inclusion in the COAP is currently under review. Due to the market sensitivity of country targeting, it is not in the best interest of the COAP to identify these countries under consideration.

Question: Please explain the manner in which section 32 funds have been used since fiscal year 1990 to fund COAP. How much is left?

Answer: A total of $30 million was made available for both the COAP and the Sunflowerseed Oil Assistance Program for fiscal year 1990 and fiscal year 1991. Total expenditures under the COAP are estimated at $4.8 million as of March 6, 1991 against this funding. Total expenditures under the SOAP are estimated at $6.7 million. This leaves a balance of $18.6 million.

Question: Please explain the role of the inter-agency process in decisions related to the COAP program. Has this review been an impediment to the implementation of the program?

Answer: The inter-agency process for the COAP involves the review of proposed countries to be included in the COAP. This review has not been an impediment to the implementation of the program.

CCC DIRECT SALES OF DAIRY PRODUCTS

Question: The 1985 Farm Bill contained a provision that was extended into the 1990 Farm Bill calling for mandatory exports of dairy products totaling 150,000 metric tons per year. How many shipments or what quantities have been sold under that provision?

Answer: Over the 5 fiscal years 1986-1990, CCC sold for export a total of 560,857 metric tons of CCC-owned dairy products in accordance with Section 1163 of the 1985 Farm Bill, which mandated sales of 150,000 metric tons per year. The total tonnage includes butteroil on a butter-equivalent basis. These CCC dairy sales averaged 112,171 metric tons per year.

CCC did not meet the mandated quantities of 100,000 metric tons of butter and 20,000 metric tons of cheese required annually.

Depressed world prices and a preference by many countries for unsalted butter, and for cheese other than Cheddar, hindered CCC sales. Further, uncommitted CCC stocks of non-fat dry milk--NDM--and cheese dropped to minimal levels in 1988.

The major buyers of CCC exports were Algeria, Brazil, Jamaica, India, Iraq, Mexico and the Soviet Union.

At this time stocks of CCC butter are high and NDM stocks are growing and we are actively seeking additional sales.

I will provide for the record a summary of the last five fiscal years' activity.
[The information follows.]

Direct Dairy Sales
FY 1986 - FY 1990
(metric tons)

	BUTTER*	NDM	CHEESE	TOTAL
FY 1986	3,750	167,786	0	171,536
FY 1987	13,454	187,914	6,000	207,368
FY 1988	21,104	58,722	13,180	93,006
FY 1989	84,241	0	0	84,241
FY 1990	4,706	0	0	4,706
TOTAL	127,255	414,422	19,180	560,857

*Includes butteroil at 1.25 MT butteroil equals 1 MT of butter.

DAIRY EXPORT INCENTIVE PROGRAM (DEIP)

Question: The 1985 and 1990 Farm Bills also included language to implement a Dairy Export Enhancement program. I understand that USDA has made a recent announcement to activate this program. Can you explain exactly what steps are being taken to use this program and how effective do you think it will be in strengthening domestic milk prices?

Answer: The third version of the Dairy Export Incentive Program--DEIP--was announced on March 1, 1991. Bonuses under the program are estimated to be 139,800 metric tons of milk powder for 70 countries and 40,800 metric tons of butterfat for 59 countries. Bonuses will be paid in the form of CCC-generic certificates. The program represents a world-wide effort to open dairy markets to U.S. products. USDA has publicized the program through a press release, communications with U.S. diplomatic missions in all eligible countries, mailings to all interested parties, and contacts with trade associations and advisory committees.

We are hopeful that the DEIP will be effective in strengthening domestic dairy prices.

QUESTIONS SUBMITTED BY SENATOR ADAMS

MARKET PROMOTION PROGRAM

Question: The vitality of our nation's agricultural exports depend upon competitive export financing as well as thorough market research and aggressive market promotion. How does the Department reconcile the commitment to export financing demonstrated in the budget with its proposal to eliminate funding for the international trade development centers that support the market research and promotional activities essential to the success of American agricultural exports?

Answer: The Department recognizes the need for involvement of state and regional institutions in the development of new technology, products, systems, etc. to enhance agricultural exports. Using existing resources, the Department has been able to provide in-kind support to the international trade development centers--ITDCs. The mechanism for providing this support is the Attache Educational Program, authorized by the Food, Agriculture, Conservation and Trade Act of 1990. During the coming year, returning attaches and other personnel of the Foreign Agricultural Service will be made available to the centers "to visit and consult with producers and exporters of agricultural commodities and products...concerning various methods to increase exports of United States agricultural commodities and products."

Question: Funding through the Market Promotion Program is vital to a large number of agricultural exporters in Washington state and the Pacific Northwest. It has come to my attention that regulations to implement the new MPP program have yet to be used. This excessive delay has already affected the promotional activities of some Washington state exporters who were promised funds and have been forced to cancel these important seasonal marketing efforts. What is the current status of the disbursement of the MPP funds, what is the reason for the continued delay, and when may intended recipients expect to receive these funds?

Answer: Market Promotion Program--MPP--allocations were announced January 14. Project agreements were forwarded to participants on March 6. Activity plans that have been received are now being reviewed and may commence immediately upon approval.

U.S.-MEXICO FREE TRADE AGREEMENT

Question: A number of agricultural growers in Washington state are concerned about the impact free trade between the U.S. and Mexico will have on their sales in our domestic market.

Please provide for the latest year available the import duty and total dollar value of imports from Mexico for the following commodities: wheat; milk; apples; cattle and calves; hay; barley; hops; corn, grain; all pears; eggs; sweet cherries; asparagus; chickens; grapes; corn, silage; sweet corn; green peas; mint; lentils; onions; dry peas; aquaculture; alfalfa seed; dry beans; bluegrass seed; carrots; red raspberries; hogs; peaches; and strawberries.

Answer: I will provide for the record a table showing U.S. imports and tariff rates for the requested commodities: [The information follows.]

U.S. IMPORTS AND TARIFF RATES FOR SELECTED MEXICAN COMMODITIES
1990

Commodity	Value $ Million	---- U.S. Import Tariffs ---- Actual cents/kg or %	Equivalent Ad Valorem %
Wheat	0.0	0.77	N/A
Milk	0.0	0.4-15.0/Liter	N/A
Apples	0.0	0.0	0.0

U.S. IMPORTS AND TARIFF RATES FOR SELECTED MEXICAN COMMODITIES
1990

Commodity	Value $ Million	--- U.S. Import Tariffs ---- Actual cents/kg or %	Equivalent Ad Valorem
Apples, P/P	0.004	1.1	N/A
Cattle/Calves	419.425	2.2	N/A
Hay	0.116	0.0	0.0
Barley	0.0	0.34	N/A
Hops	0.0	16.5	N/A
Corn (Yellow)	0.0	0.0	0.0
Pears,Fsh,4/1-6/30	0.002	0.0	0.0
Pears,Fsh,7/1-3/30	0.001	1.1	2.2%
Eggs	0.0	0.0	0.0
Sweet Cherries	0.0	0.0	0.0
Asparagus,F/C,			
9/15-11/15	0.192	5.0%	5.0%
11/16-8/14	20.938	25.0%	25.0%
Chickens	0.0	0.0	0.0
Grapes-Fresh			
2/15-3/31	0.0	1.41/M3	N/A
4/1-6/30	16.643	0.0	0.0
7/1-2/14	2.282	2.12/M3	N/A
Corn Silage	0.0	17.5%	N/A
Sweet Corn,Fsh	3.467	25.0%	25.0%
Sweet Corn,Fz	0.0	17.5%	N/A
Asparagus, F/C	0.078	17.5%	17.5%
Peas, F/C			
7/1-9/30	0.022	0.0	0.0
10/1-6/30	15.379	4.4	1.3%
Peas, Frz	0.304	0.0	0.0
Peas, P/P	0.109	0.0	0.0
Mint	0.004	0.0	0.0
Lentils	0.0	0.0	0.0
Onion Sets	0.005	0.0	0.0
Pearl Onions	0.0	0.0	0.0
Onions/Shallots	67.169	3.9	8.3%
Onions - Dried	2.830	25.0%	25.0%
Onion Powder	2.953	35.0%	35.0%
Dry Peas	0.0	0.0	0.0
Alfalfa Seed	0.0	0.0	0.0
Ktcky Bluegrass	0.0	0.0	0.0
Lima Bns 11/1-5/31	0.049	0.0	0.0
Cowpeas	1.276	0.0	0.0
Blackeye Peas	16.189	0.0	0.0
Chickpeas	0.0	0.0	0.0
Carrots,Rdced size	0.047	17.5%	17.5%
Carrots,<10cms long	0.030	0.0	0.0
Carrots,>10cms long	2.622	1.1	6.0%
Carrots, Dried	0.021	0.0	0.0
Raspberries			
9/1-6/30	0.0	0.0	0.0
Hogs: Pork, Ham	0.0	2.2	N/A
Pork Bellies	0.033	2.2	0.005%
Peaches 12/1-5/31	0.040	0.0	0.0
Strawberries			
6/15-9/15	0.083	0.4	1.4%
9/16-6/14	12.321	1.7	1.6%

U.S. IMPORTS AND TARIFF RATES FOR SELECTED MEXICAN COMMODITIES
1990

Commodity	Value $ Million	--- U.S. Import Tariffs ---- Actual cents/kg or %	Equivalent Ad Valorem
Strawberries, Fz	23.689	14.0%	14.0%
Strwbrrs, P/P	0.051	1.7	1.7%
Strwbrrs, Prsrves	0.0	0.0	0.0
Strwbrrs, Paste	0.493	15.0%	15.0%
Shrimps 3/	176.800	0.0	0.0
Abalone 3/	31.000	0.0	0.0
Other Fish,edbl 3/	71.100	0.0	0.0
TOTAL	$887.664 Million		

Note: 1. Abbreviations; Fz=Frozen, P/P=prepared/preserved, Fsh=fresh, F/C=fresh/chilled, NA=Not applicable.
2. Dates indicate period during which seasonal tariff applies. These coincide with U.S. harvest and marketing periods.
3. 1989 data. A small volume of Shrimps/Prawns containing fishmeal are subject to a 10% tariff.
4. Equivalent tariffs are calculated for fixed rate tariffs to allow comparison with ad valorem rates.

CREDIT TERMS FOR WOOD PRODUCTS

Question: It has come to my attention that we continue to lose export opportunities for wood products in new markets because the GSM credit guarantee terms were inadequate. Under the 1988 Omnibus Trade and Competitiveness Act, the Congress specifically directed that GSM longer-term credit guarantees be granted for wood products exports. Why does the Department continue to deny GSM longer-term credit guarantees to wood products exports?

Answer: Extending financing for wood products beyond 2 years could open the United States to charges of using the GSM-102 program to initiate credit competition. The OECD arrangement on export credits establishes internationally agreed guidelines for officially supported export finance for manufactured goods. Generally, agricultural products covered by chapters 1 to 24 of the Customs Cooperation Council Nomenclature may be financed commercially on 3-year terms; financing for commodities outside those chapters--which affects wood products--is limited to less than 2 years. While the Department of Agriculture is not bound to the definitions of agricultural products for purposes of the OECD agreements, in the context of current trade negotiations it could be counterproductive at this time to pursue longer credit terms for a commodity which is regarded by most other nations as a manufactured item. Still, USDA has made available over $200 million in fiscal year 1991 GSM-102 credit guarantees for coverage of wood products, including pulp, to selected importing countries, and that coverage is being used.

Question: Which other OECD countries do not provide some type of subsidy, either through stumpage prices, transportation or some other means, for their wood products exports? Are these subsidies consistent with the OECD arrangement?

Answer: We have no documented evidence that other countries are providing export credits at terms inconsistent with OECD guidelines. Regarding subsidies, we have not challenged any OECD country within the multilateral context of the GATT. The stumpage issue with Canada was resolved through bilateral negotiations.

U.S.-JAPAN WOOD PRODUCTS AGREEMENT

Question: Please provide me with an update as to the status of agreement between the U.S. and Japan to eliminate barriers to U.S. wood products imports. Are the Japanese adhering to their commitments in implementing the agreement?

Answer: The 1990 U.S.-Japan Wood Products Agreement has made progress in its objectives, and the value of the agreement in terms of increased sales is estimated by the industry at over $1 billion. Two technical committees established by the agreement meet semiannually to interpret and monitor the agreement's implementation.

In the agreement, Japan pledged to reduce tariffs on processed wood products. The U.S. agreed that Japan could make those reductions during the Uruguay Round. To date, Japan's Uruguay Round negotiators have offered to lower tariffs on plywood, particle board, and a full range of processed wood products. However, they have rejected a zero-for-zero offer to eliminate tariffs. Also, the U.S. and Japan agreed to tariff reclassification of certain glue-laminated lumber and laminated veneer lumber which allowed those products to enter Japan at a 3.9 percent rate, as of June 1, 1990, compared with previous rates of 15 and 20 percent.

Japan also agreed to change certain building standards to expand the use of wood. As of 1991, wood may be used to build multi-family/multi-use buildings of up to 1000 square meters and three stories. By 1991, the allowance will expand to 3000 square meters.

In compliance with its commitment to recognize and accept testing by U.S. grading organizations, Japan gave authority in December 1990 to a U.S. manufacturer of structural panel products to apply the Japan Agricultural Standard--JAS--mark to its plywood.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

MARKET DEVELOPMENT AND COOPERATIVE PROGRAM

Question: Market development is a long-term goal that to be sound and sustainable has to make economic sense. The cooperator organizations and FAS have been effective in finding market openings, but recently some concern has been expressed by cooperatives, as well as, overseas Agricultural Counselors and Attaches who see the support from FAS headquarters as waning. How do you view FAS support for market development and the cooperator program?

Answer: The Department's export promotion efforts have grown from approximately $30 million per annum in the cooperator program in 1985, to about $235 million annually with the addition of the TEA program in fiscal year 1986 and now the Market Promotion Program in 1991. We accordingly have committed additional staff resources to these programs, a significant share of which has been devoted to "start-up" the TEA/MPP program. During these periods we have attempted to redirect our efforts from program administration, more toward program effectiveness. We hope that the MPP regulations will clarify program criteria and operational procedures releasing resources for more fully targeting priority markets, developing effective strategies, and evaluating ongoing efforts to direct future program decisions. We are confident that FAS' support of export promotion programs will be more effective as a result.

TEA PROGRAM/MARKET PROMOTIONAL PROGRAM

Question: It is my understanding that the Department has been unable to approve TEA/MPP activities to be carried out by the cooperators and that some groups have been unable to proceed because these decisions have not been forthcoming. I'm told this problem may be because regulations governing the program have yet to be finalized. Is that true? Will the regulations be in place for the fiscal year 1992 program on October 1, 1991?

Answer: MPP regulations have been drafted and are being cleared within the Department. When this clearance is complete, the regulations will be ready to go to the Office of Management and Budget. We anticipate publication in the Federal Register by mid-May. So as not to unduly delay the start of the MPP, the program is being conducted in the interim on the basis of standard agreement provisions which are generally modeled on the TEA program guidelines.

INVESTIGATIONS AND STUDIES

Question: How much time would you estimate is spent answering inquiries from various auditing agencies?

Answer: FAS does not track the specific amount of time spent responding to reviews. However, a significant amount of FAS staff resources is required by the numerous reviews conducted by the various auditing agencies for entrance conferences, meetings, discussions, interviews, information gathering, exit discussions, and written replies to the draft and final reports.

Question: Do you feel that the findings/results of these investigations and studies are beneficial and contribute to developing markets for U.S. agriculture?

Answer: It is difficult to categorize the results due to the numerous reviews conducted on FAS programs. There have been many recommendations to tighten program requirements.

STRATEGIC MARKETING

Question: I recently noted a GAO Report titled, "Strategic Marketing Needed to Lead Agribusiness in International Trade." An

observation has been made that much of the same centralized planning that has been so thoroughly discredited in Eastern Europe has found its was into this report. Would you care to comment on this report?

Answer: The Foreign Agricultural Service concurs with the GAO on the importance of strategic planning in administering and maximizing the effectiveness of our export promotion programs. We are currently in the process of improving upon and streamlining our planning process. Our view is that this planning process should result in information which will assist the private sector in its efforts to promote foreign markets for U.S. farm products rather than force and direct the private sector to make particular marketing decisions.

COTTONSEED OIL ASSISTANCE PROGRAM

Question: The 1990 Farm Bill includes a provision designed to facilitate broader utilization of the COAP program to assist U.S. exporters in competing for sales regardless of the source of subsidized competition. How will USDA adjust the operation of the COAP program in order to incorporate the new guidelines?

Answer: The Department is currently reviewing the operation of the COAP in light of the provisions of the Food, Agriculture, Conservation, and Trade Act of 1990, taking into consideration the current supply situation for cottonseed oil. However, we continue to believe that the first priority for countries to be targeted under the COAP should be based on the position of subsidized exporters in the market. We will continue to monitor the expenditure of funds under the COAP and review the inclusion of additional markets as necessary and appropriate.

Question: Please provide a summary of the allocations made under the COAP program and the actual sales made against those allocations.

Answer: In April of 1989, 20,000 metric tons of cottonseed oil were announced as being eligible for bonus bids to Egypt. Acceptances of bonus bids under this allocation were as follows: September 28, 1990 for 6,000 metric tons; October 4, 1990 for 6,000 metric tons; October 23, 1990 for 2,000 metric tons; and March 6, 1991 for 6,000 metric tons. Egypt was targeted for an additional 20,000 metric tons of cottonseed oil on March 15, 1990.

Question: Please provide a list of countries eligible for COAP-assisted sales and any countries which have been recommended by industry but have not been approved for COAP sales.

Answer: Egypt is the only country eligible for COAP assisted sales. Additional countries have been recommended by the industry, and their inclusion in the COAP is currently under review. Due to the market sensitivity of country targeting, it is not in the best interest of the COAP to identify publicly countries under consideration.

Question: Are there currently any countries subsidizing the sale of vegetable oils which COAP cannot be used to counteract?

Answer: The COAP can be used to counteract all countries subsidizing the export sale of vegetable oils.

FISH PRODUCTS

Question: The 1990 Farm Bill integrated fish products into the programs of FAS. As you know, the U.S. is the world's largest exporter of fishery products. The huge potential to expand U.S. fish exports and the size of present fish-related programs in the FAS, undoubtedly, will require expertise in this area. Is FAS currently able to provide this expertise?

Answer: Currently, FAS is not able to provide the expertise in world fishery trade which is necessitated by the newly expanded responsibilities set out in the 1990 Farm Bill. FAS does not have analysts to monitor and report on trade developments, statistics and policy issues for fishery products as it does for many other commodities.

Question: What additional staffing and funding will be required to provide the necessary trade information, analysis and programming oversight on this additional commodity?

Answer: FAS would need minimally three additional man-years to handle increased responsibilities for fishery products. This would cost about $150,000 including salaries and benefits.

FAS has a marketing specialist who oversees a large Market Promotion Program--MPP--for salmon exports plus other commodity marketing responsibilities. However, a fishery trade analyst is needed. Additional staff will also be needed to handle numerous exporter questions on phytosanitary requirements of importing countries, tariff barriers and other trade impediments. There is also a possibility of new MPP programs for fishery products in light of the increasing trade interest in USDA export promotion assistance. This would require more staff time to administer and evaluate new programs.

In addition, FAS' overseas agricultural attaches in select countries would likely have new reporting responsibilities for fishery products. This would put pressure on staff time and probably require additional personnel to handle the increased work loads. Also, FAS would need to discuss fishery reporting responsibilities with the National Marine Fisheries Service of the Commerce Department. Commerce currently reports on foreign fishery situations and a new division of responsibilities could be necessary.

WOOD PRODUCTS

Question: Exports of wood products have increased dramatically over the past few years--in fact, wood products now rank second among all agricultural exports. Much of this increase can be attributed to the industry's participation in USDA market development programs such as TEA and MPP. In light of this industry's tremendous potential for continued growth in exports, could additional resources be used for wood product programs?

Answer: U.S. wood product exports more than doubled from $3 billion in 1986 to $6.5 billion in 1990. During the same period, the trade balance surged from a negative $1.88 billion in 1986 to an estimated surplus of $1.7 billion in 1990. We believe that the U.S. forest products industry will continue, for the long term, to be very competitive internationally. We are also impressed with the dedication of the industry to the export market and to the quality of their overseas promotional program. The U.S. wood products industry has shown a strong commitment to supporting governmental trade policy initiatives and to taking advantage of the opportunities created by these negotiations.

For these reasons, the wood products industry has been receiving increasing TEA/MPP resources, increases in funding through the Cooperator Market Development Program, and access to GSM export credit guarantees. We have also devoted considerable resources to supporting governmental trade negotiations. We appreciate that the U.S. wood products industry has made rapid progress in international markets and will continue to periodically review the situation to ensure that resources are sufficient to allow the industry to reach its full potential.

Question: The Market Development program has been very successful in assisting numerous agricultural commodities, including wood products, to develop new overseas markets and increase agricultural exports dramatically. What is your general assessment of current FAS market development activities, and what ways do you believe the current program could be enhanced to ensure that these valuable programs continue?

Answer: We agree that FAS' market development efforts have contributed to improving U.S. agriculture's export position. We believe the programs can be made more effective in the face of increasing competition in world markets, more limited promotional resources and greater participation among new commodities and products. We have to do a better job of targeting limited resources --ours as well as participants'--to those commodities and markets that offer the greatest potential returns in U.S. export trade.

We have launched an intradepartmental effort to better coordinate our export programs. In the area of export promotion, we are focusing our resources and those of participants on more effective planning including precisely defined objectives, specifically targeted strategies, realistic and measurable goals, and objective evaluations to measure performance and shape future programs. Published regulations, which more clearly define program criteria and operational requirements, should simplify administrative oversight and allow redirection of staff resources to program planning and evaluation.

FREIGHT COVERAGE IN GSM PROGRAMS

Question: Until recently it had been the policy at the USDA to, in certain circumstances, allow export credits to offset freight costs. While I understand the need to make as much money as possible available for the purchase of commodities, aren't we occasionally putting U.S. producers at a comparative disadvantage

against other suppliers who have much smaller transportation costs because of proximity?

Answer: It has never been a blanket, program-wide policy of USDA to allow GSM-102 export credit guarantees to offset freight cost. The USDA has permitted certain percentages of credit guarantee packages to allow freight financing in cases where competition and market potential warranted it. However, as you noted, the primary purpose of the credit guarantee programs is to maximize commodity exports. Freight financing under USDA credit guarantees can be an effective offset to occasional comparative transportation disadvantages. Fortunately for the United States, competing countries that have transportation advantages have tended to have limited competitive financing capability. This has limited our need to offer more extensive freight programming. In cases where our U.S. export competition is well financed, subsidized and well located, USDA has had other programming, such as the Export Enhancement Program, to offset those disadvantages. By selectively allowing freight to be included in our packaging to some markets for U.S. products, we have been able to level the playing field and increase U.S. market share.

U.S.-JAPAN WOOD PRODUCTS AGREEMENT

Question: Last year, the U.S. and Japanese governments reached agreement on the initial steps that must be taken to remove the many impediments to U.S. wood products exports to Japan. FAS officials were involved in those bilateral negotiations. We would be interested in an update on the implementation of that agreement.

Answer: The 1990 U.S.-Japan Wood Products Agreement has made progress in its objectives, and the value of the agreement in terms of increased sales is estimated by the industry at over $1 billion. Two technical committees established by the agreement meet semiannually to interpret and monitor the agreement's implementation.

In the agreement, Japan pledged to reduce tariffs on processed wood products. The U.S. agreed that Japan could make those reductions during the Uruguay Round. To date, Japan's Uruguay Round negotiators have offered to lower tariffs on plywood, particle board, and a full range of processed wood products. However, they have rejected a zero-for-zero offer to eliminate tariffs. Also, the U.S. and Japan agreed to tariff reclassification of certain glue-laminated lumber and laminated veneer lumber which allowed those products to enter Japan at a 3.9 percent rate, as of June 1, 1990, compared with previous rates of 15 and 20 percent.

Japan also agreed to change certain building standards to expand the use of wood. As of 1991, wood may be used to build multi-family/use buildings of up to 1000 square meters and three stories. By 1991, the allowance will expand to 3000 square meters.

In compliance with its commitment to recognize and accept testing by U.S. grading organizations, Japan gave authority in December 1990 to a U.S. manufacturer of structural panel products to apply the Japan Agricultural Standard--JAS--mark to its plywood.

URUGUAY ROUND TARIFF ELIMINATION NEGOTIATIONS

Question: Can you please explain to us what activities the FAS has undertaken in support of the Uruguay Round of negotiations under the GATT--specifically in support of the U.S. proposal for the mutual elimination of tariffs on certain products? --the so called "zero-for-zero" objective, which includes several agricultural products, including wood and beer. Should FAS be doing more?

Answer: The principal thrust of our negotiating strategy on agricultural tariffs is to seek comprehensive formula tariff reductions as part of a larger agreement on reductions in agricultural support and protection. Tariffs for certain agricultural industries, such as forest products and beer, are being negotiated separately from this overall approach. For forest products and beer, the industries have requested that we follow the "zero-for-zero" approach being used in a number of industrial sectors. The U.S. government is vigorously pursuing these initiatives. This effort has been led by the U.S. Trade Representative's Office with the Commerce Department, FAS and other agencies participating in the formulation and execution of appropriate strategies and tactics. We will continue to work to achieve success in the "zero-for zero" approach within the structure established by the U.S. Trade Representative.

EUROPEAN COMMUNITY 1992 PROGRAM

Question: We are quite concerned about the implications of the European Community's plan to create a barrier-free market by the end of 1992. Specifically, we suspect that EC harmonized directives may be framed so as to hinder the entry of U.S. products into the EC market.

A clear example was a directive requiring all lumber imported from the U.S. to the EC to be kiln-dried, ostensibly to prevent introduction of the pinewood nematode into Europe. A derogation to eliminate the kiln-drying requirement was sought and granted for one year on certain conditions. What will FAS' role be in the EC process?

Answer: In January 1991, under its existing plant health legislation, the EC banned imports of coniferous sawnwood except where the wood is kiln dried. Because the U.S. Government disputes the need for the kiln drying requirement and because kiln capacity in the United States is currently insufficient to meet exporters' needs, the EC agreed to a derogation from the kiln-drying requirements for one year. In the interim, the two sides have agreed on a temporary certification program due to expire on December 31, 1991.

The Foreign Agricultural Service plays an active role, as part of the Administration's Interagency Task Force on EC 1992, in monitoring the effects of the European Community's Single Market legislation on U.S. trade interests. Issues surrounding the 1992 initiative will continue to be addressed in bilateral meetings. The next meeting is tentatively scheduled for the summer of 1991.

FAS also provides Market Development and Targeted Export Assistance funds to the National Forest Products Association--NFPA--which enables it to monitor the European Community's 1992 process. In 1990, most of the funding was through the TEA program--$572,500--with ancillary activities funded in the Market Development program.

NFPA monitors, evaluates and influences key developments within the EC-92 harmonization program affecting the United States wood products sector. This includes: working with EC government officials to accept U.S. test data and certification procedures and to establish EC product and building standards comparable to those of the United States; and to inform the U.S. industry of specific wood products issues. The major purpose of these actions is to prepare the U.S. wood products industry for the new market environment envisioned in 1992. NFPA will be the overall coordinator for this program. NFPA's EC-92 technical advisory committees will be the vehicle for channeling and analyzing information for the industry.

The advisory committee has been in operation for almost one year. Industry members believe that this has been successful at monitoring the work of the EC technical committees, influencing the development of draft standards, and providing information to members of the U.S. wood products industry.

EUROPEAN COMMUNITY 1992 PROGRAM

Question: How will FAS assist the wood products industry in monitoring the European Community's 1992 process and avoiding the adoption of EC standards that discriminate against U.S. wood products?

Answer: As part of the Administration's Interagency Task Force on EC 1992, the Foreign Agricultural Service plays an active role in monitoring the effects of the European Community's Single Market legislation on U.S. trade interests. In early 1990, former Secretary Yeutter requested that his counterpart in the EC Commission, Commissioner for Agriculture and Rural Development Ray MacSharry, enter into a full dialogue with the United States on EC legislative progress relating to the 1992 initiative and its possible trade implications. The two sides, led by Under Secretary for International Affairs and Commodity Programs Crowder and Director General for Agriculture Legras, met for the first time in May 1990 to discuss a wide range of issues relating to the EC 1992 program.

Two EC directives have a direct bearing on U.S. wood product exports--the first relating to EC restrictions on wood product imports to prevent the introduction of pinewood nematode and the second on product specifications for wood products used in construction. In January 1991, under its existing plant health legislation, the EC banned imports of coniferous sawnwood except where the wood is kiln dried. Because the U.S. Government disputes the need for the kiln drying requirement and because kiln capacity in the United States is currently insufficient to meet exporters' needs, the EC agreed to a derogation from the kiln-drying requirements for one year. In the interim, the two sides have agreed on a temporary certification program due to expire on December 31, 1991.

On the construction standards issue, FAS' Washington and overseas offices have closely monitored and continue to monitor EC progress towards establishing standards for a wide range of wood products. The USG has encouraged the U.S. industry to comment on this standards-setting process through the American National Standards Institute, the U.S. representative to the International Standards Organization.

Both of these issues will continue to be addressed in bilateral meetings on 1992. The next meeting is tentatively scheduled for the summer of 1991.

QUESTIONS SUBMITTED BY SENATOR BOND

IRAQ EXPORT CREDIT GUARANTEES

Question: How did we get $2 billion behind with Iraq and do we need a new checks and balance system put in place to avoid this in the future? Can we use Iraqi frozen assets to help secure repayment and do we have a amount of what those assets are?

Answer: The $2 billion that you refer to represents the CCC's contingent liability to pay U.S. banks for any current and/or future defaults resulting from past U.S. exports to Iraq under the GSM-102 and GSM-103 Export Credit Guarantee Programs. The credit guarantee programs were initiated with Iraq in 1983 and have provided coverage on short term, up to 3 year repayment terms, and intermediate term coverage, normally about 7 years. On August 2, 1990, when Iraq stopped paying all of its international obligations, Iraq had met all of its financial obligations at that time relating to the GSM Export Credit Guarantee Program which had come due as of that date.

Over the last 12 through 18 months we have instituted an improved financial risk assessment process to support the commercial export credit guarantee programs. This improved system for determining country allocations for CCC credit guarantee programs became operational at the beginning of fiscal year 1991. This system encompasses country and banking sector risk assessments, the consideration of market development opportunities and a clearly defined decision-making process. This system does provide appropriate checks and balances.

Concerning frozen Iraqi assets, USDA staff in cooperation with the Treasury Department's Office of Foreign Assets Control, has initiated the process of examining the potential use of these assets to provide for securing repayments for claims. It will take some time to determine the options that are available to USDA in this matter.

GSM-102 FOR USSR

Question: Although we granted $1 billion credit to the Soviet Union last fall we need to continue our trading relationship with them. Have we used a barter system to trade our agricultural commodities for Russian oil and fertilizer?

Answer: We have not used a barter system to export agricultural commodities. At the present time we do not have plans for developing barter arrangements.

QUESTIONS SUBMITTED BY SENATOR HATFIELD

MARKET PROMOTION PROGRAM

Question: Mr. Acker, I wish to commend you on the quality of assistance that the Foreign Agricultural Service has provided to the State of Oregon and the Region. Recently, USDA granted $6 million to WUSATA and its member states for generic and branded promotion.

As you know, the volume and value of U.S. agricultural value-added products has been increasing over the years. While value-added products exports have been increasing, FAS has not placed the needed resources into the high-value products division of FAS.

Currently, FAS appears to be moving from the targeted export assistance program to the market promotion program as mandated in the last farm bill. The MPP regulations must be published by May 27, half-way through the marketing year.

In the past, WUSATA marketing plans and amendments to those plans, have taken a great deal of time due to lack of resources in the High-Value Products Division of FAS.

Mr. Acker, I hope you will impress upon the new Secretary and the current administration, the flexibility that is necessary to meet changes in world market divisions. It is imperative that we not get hemmed in by legal opinions which reduce the flexibility needed to meet these ever-changing world agricultural situation.

Has the transition from TEA to the MPP created additional paperwork and delays in implementation of the cooperator's marketing plans?

Answer: The transition has caused some delays. The Food, Agriculture, Conservation, and Trade Act of 1990 repealed section 1124 of the Food Security Act of 1985 under which the Targeted Export Assistance --TEA--program was conducted. Because unexpended balances from funds originally made available under TEA agreements may be utilized in accordance with the terms of such agreements through the 1991 plan year, dual program procedures must be in place to separately administer and account for TEA and MPP budget approvals and program costs. Dual requirements will increase somewhat the paperwork needed to administer the MPP/TEA programs until remaining TEA funds are expended.

Question: Given delays in marketing plan approval, has this caused additional amendments to these plans? and if so, are these amendments being processed faster than in the past?

Answer: Delays in marketing plan approvals for MPP programs have caused an increase in amendments due mainly to adjustments in activities to accommodate the reduced time available in which to effectively promote certain commodities. We are processing amendment requests for both the MPP and TEA programs as quickly as possible.

Question: How do you envision FAS support for market development and the cooperator program?

Answer: FAS is committed to the continuation of marketing efforts that effectively expand agricultural exports. The Agency is placing greater emphasis on planning of promotion activities and evaluation of results to ensure efficient and cost-effective use of program funds. FAS is also seeking a balance between ensuring necessary management control and funds accountability, and preserving sufficient program flexibility to support the objectives and need of participants.

EXPORT ENHANCEMENT PROGRAM (EEP)

Question: What would be the impact to the wheat sector farm income if EEP did not receive adequate new appropriations?

Answer: If the $425 million limitation remains in place, sales of U.S. wheat in markets where our farmers face unfair competition from subsidizing suppliers would likely come to a standstill. Such a situation not only would adversely impact wheat farmers' income in the short run, but would also negatively affect wheat farmers' income in the medium and long run as key export markets are lost and domestic stocks increase.

The absence of EEP exports would cause an immediate decline in U.S domestic wheat prices and a risk of an even larger decline in prices received by farmers for the 1991 crop year starting in June. Farmers are not protected by deficiency payments for any wheat price decline between now and June 1, because the payment is based on the 5-month price for June-October 1990. Because only about half of the 1991 wheat crop is eligible for payments, price declines after June 1, 1991, will also reduce farm income significantly.

QUESTIONS SUBMITTED BY SENATOR GORTON

CREDIT TERMS FOR WOOD PRODUCTS

Question: I continue to receive reports from constituents in the wood products industry that they are losing export opportunities in new markets because they are unable to receive adequate credit guarantee terms through the General Sales Manager program administered by FAS. Why is it that these businessmen are being treated differently from other agricultural commodities and being denied longer term credit guarantees?

Answer: Guarantee coverage for wood products under GSM-102 typically covers financing of up to 720 days, consistent with

multilateral U.S. commitments under the Organization for Economic Cooperation and Development arrangement on officially supported export credits. The OECD arrangement on export credits establishes internationally agreed guidelines for officially supported export finance for manufactured goods. Generally, agricultural products covered by chapters 1 to 24 of the Customs Cooperation Council Nomenclature may be financed commercially on 3-year terms; financing for commodities outside those chapters--which affects wood products--is limited to less than 2 years.

Question: You mention "international agreements"--don't those agreements exempt agricultural products and stipulate that each country may determine what is, or is not an agricultural product. I thought Congress determined in the 1988 Trade Act that for purposes of these programs, wood and processed wood products were agricultural products. Why does the Administration limit credit on wood products, with the exception of those few countries that were grandfathered in 1987?

Answer: Extending financing for wood products beyond 2 years could open the United States to charges of using the GSM-102 program to initiate credit competition. While the Department of Agriculture is not bound to the definitions of agricultural products for purposes of the OECD agreements, some feel it would be unwise at this time to pursue longer credit terms for a commodity which is regarded by most other nations as a manufactured item. Still, USDA has over $200 million in fiscal year 1991 GSM-102 credit guarantees available for coverage of wood products, including pulp, to selected importing countries, and that coverage is being used.

CANADIAN LUMBER INDUSTRY

Question: There has been some talk that the Canadian lumber industry is pressuring its government to rescind or renegotiate the Memorandum of Understanding on lumber which was negotiated between our two countries in 1987. This agreement resolved a question of Canadian subsidies to lumber producers--have you heard anything along these lines? If so, how does the USDA intend to respond?

Answer: Our position on the MOU on softwood lumber remains unchanged; we will continue to insist on strict enforcement of its terms. There are ongoing consultations on the implementation and enforcement of the MOU. However, we see no reason, at this time, to renegotiate or terminate the MOU. The U.S. industry is actively monitoring this process.

SOIL CONSERVATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

WETLANDS DETERMINATIONS

Question: I am concerned about the method by which federal agencies identify wetlands and wish to receive assurance that the federal manual for identifying wetlands conforms to Congressional intent. Specifically, I want to impress upon you the importance of meeting the three-pronged test of hydrology, hydrophytic vegetation and hydric soils before land is declared a wetland.

Are you prepared to offer assurance that all three prongs must be met before land is determined to be a wetland?

Answer: Yes, I am prepared to offer that assurance. SCS will certify all wetland determinations consistent with the 1990 farm bill provisions. As a part of that certification process we will assure that identified wetlands meet the test of hydrology, hydrophytic vegetation, and hydric soils.

EMERGENCY CONSERVATION

Question: What are your current requests for funding under the Emergency Watershed Protection program under SCS? Please be specific by state, amount and purpose.

Answer: As of April 4, 1991, the emergency watershed operation program is funded for fiscal year 1991 at $20,000,000 for exigency and non-exigency situations. These funds are all committed except for $1,500,000. Of the uncommitted funds $1,000,000 is reserved for contract modifications and contingencies for existing projects. The remaining $500,000 is in reserve for exigencies which are anticipated in the remaining six months of this fiscal year. Unfunded requests for non-exigency work are $5,500,000 in Mississippi, $510,000 in Tennessee, $500,000 in Kentucky, $500,000 in South Carolina, $42,000 in Alabama and $80,000 in North Carolina. These items total $7,132,000.

CHESAPEAKE BAY

Question: What amount of funding is in the budget for Chesapeake Bay work, and what are the corresponding FTE's?

Answer: The amount of funding for 1992 is $4.5 million and the corresponding FTE's are 62 staff years.

What are the similar figures for 1991? If the figures are not $4,500,000 and 62 staff positions as stated in the Senate report, explain why.

Answer: The figures for both 1991 and 1992 are the same, $4.5 million and 62 staff years.

CONSERVATION PLANS

Question: Mr. Richards, I am beginning to hear from conservation districts around the country that they are heavily burdened by the amount of work they have to do to implement conservation plans. You admit in your testimony that the workload is tremendous. You indicate that conservation plans have been developed for 134.7 million acres, and that 53.6 million of these acres have the plans implemented.

Are there acres out there where conservation plans haven't even been developed where they are required?

Answer: We are unaware of any acres where conservation plans have not been developed for farmers who have asked to participate in farm programs. However, we know that there are acres that will need to have plans developed for new program participants including those who are impacted by the 1990 farm bill provisions broadening the HEL/wetland coverage to include additional USDA program benefits such as ACP, PL-566, CRP and others; and for farm reconstitutions.

Question: What is the total number of conservation plans developed?

Answer: The current figure is approximately 1.2 million plans developed. This will change slightly as new USDA program participants are enrolled.

Questions: What number of plans corresponds to the 53.6 million acres where the plans are implemented?

Answer: There are 532,594 plans implemented on the 53.6 million acres. This figure also reflects an estimated 20 million acres of CRP land that is considered highly erodible.

Question: What number of plans remain to be implemented?

Answer: There are 738,568 plans remaining to be implemented.

Question: Do you have a schedule for implementing these plans by the end of 1994?

Answer: We do not have a specific schedule other than planned dates contained in the individual producer conservation plans.

Question: What is that schedule, and how do you stand currently?

Answer: By the end of fiscal year 1992 we will have an estimated 724,162 plans implemented. We will then need to complete 214,000; 221,000; and 112,000 additional plans in fiscal years 1993, 1994, and 1995 respectively to meet the schedules in the individual producer conservation plans.

Question: Is your budget request sufficient to meet that schedule?

Answer: Our ability to meet this schedule depends upon a number of factors including availability of adequate technical assistance

and the ability of farmers to proceed with implementing their plans. The President's 1992 budget proposal would add about 670 staff years at the field level and would improve program efficiency for field offices that currently do not have adequate automated systems.

CONSERVATION WORKLOAD

Question: You indicate that your workload is tremendous to develop and implement the conservation plans under the 1985 farm bill. You also request an increase of $50,000,000 to add 660 staff years in field offices. I note in your explanatory notes that for 1991, the budget for the national headquarters is about $10,000,000 more than in 1990--an increase of almost 20 percent. It concerns me greatly with the workload out in the field that you are using so much money here in Washington.

What exactly is the $10,000,000 increase this year going for?

Answer: The national headquarters budget shown in the explanatory notes includes billing for Departmental centralized services; nationwide charges for unemployment insurance, workman's compensation, etc.; contracts and agreements that benefit all SCS program operations across the United States; and policy and coordination staff costs. There is a $9 million increase shown in the 1991 budget for the national headquarters as of the time that the budget was submitted to the Congress in January 1991. This increase included $2.6 million that was being held in reserve temporarily pending final allocation to the field. Currently, $1.7 million of these funds have been transferred to the field. Another $2.9 million was designated for technology development activities related to the water quality initiative as justified in our 1990 and 1991 budget submissions and approved by the Congress. These activities are centrally administered by staff in the national headquarters, but ultimately have a direct impact on field operations. Included are such activities as updating Field Office Technical Guides for water quality practices and standards; model development to support water quality program evaluation and project monitoring; and water quality training for SCS field employees. About $1 million of the increase was shown for increased pay and operating costs to support existing staff. The remaining $2.5 million was primarily for agreements with other federal agencies, contracts, and contract modifications that impact on field operations and were deferred last year due to the 1990 sequester. The $2.5 million also includes funding for nine vacant positions that will be filled during fiscal year 1991.

Question: What are the staff years for the national headquarters for 1990, 1991 and proposed for 1992?

Answer: The staff years for the national headquarters for 1990, 1991 and proposed for 1992 are 489, 498 and 498 respectively.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

NON-POINT SOURCE POLLUTION BEST MANAGEMENT PRACTICES

Question: As we enter into reauthorization of the Clean Water Act, non-point source pollution, and in particular agriculture's contribution to non-point source, will likely receive much attention under the Clean Water efforts and others.

What are you doing to help farmers develop better Best Management Practices so they don't get caught off-guard if the Clean Water Act amendments begin strict enforcement of those kinds of activities?

Answer: With the resources provided in support of the President's Water Quality Initiative, the Soil Conservation Service has created a technical staff devoted to the improvement of management practices for water quality purposes. We have reviewed and updated existing practice standards to insure that water quality concerns are adequately addressed. Field Office Technical Guides have also been updated and new practice standards are in place for nutrient and pest management. In addition, a soil-pesticide rating system is being used to identify pesticides with the potential to leach below the root zone.

Given that many states utilize SCS standards and specifications to guide state programs, stricter enforcement should not pose a major problem unless states choose technologies for which no standards currently exist.

COMMITTEE'S SPECIAL PROJECTS

Question: There has been some concern that special projects supported by the Committee have been looked upon by SCS at the national level as a source of irritation. I have even heard it suggested that if we were to fund a special project in a state, that state's operating budget would be cut and field personnel would be laid off.

Is that true and if so, how can you justify punishing a state at the same time this Committee determines that state has a special need to be met?

Answer: SCS at the national level is not irritated by the Committee's special state projects. Decreases in a state's operating budget have not been the result of the funding of special projects. It does cause concern in trying to allocate limited resources to carry out mandated responsibilities such as those established by Congress in the 1985 and 1990 farm bills. However, we have supplemented every state's budget for special projects with the exact amounts directed by the Committee.

CALIFORNIA DROUGHT

Question: We have all watched with some alarm, the terrible threat to agriculture in the state of California and other Western states due to prolonged drought. More and more we are coming to realize the importance of dependable water resources. In many parts

of my state, groundwater sources are under threat of depletion and contamination.

What steps are you taking to ensure that agriculture and rural water needs can be met now and in the future?

Answer: SCS addresses agricultural and rural water needs in a number of ways through existing program authorities, including:

-- Technical and financial assistance which provides for irrigation water management to improve efficiency in the use of limited water supplies;

-- Snow surveys and water forecasts which are made available in the Western states to support agricultural and other management concerns;

-- Technical assistance which is made available to landusers for planning and installing conservation and management practices for the prevention and reduction of non-point source contamination of surface and groundwater supplies impacted by agricultural activities;

-- Water resources planning under the River Basin Surveys and Investigations program which helps state and local governmental agencies plan for the efficient management of water supplies, the improvement of water quality, and other land and water resource concerns;

-- Working with local organizations to investigate the land and water problems on a watershed basis, examining alternative solutions, and installing, on a cost-shared basis, a watershed plan that consists of structural and/or nonstructural measures for flood prevention, agricultural water management, municipal or industrial water supply, water quality management, ground water recharge and other purposes;

-- In cases of authorized natural disasters areas, providing disaster assistance that help result in increased water conservation and improved groundwater quality and help reduce the adverse effects of droughts.

QUESTIONS SUBMITTED BY SENATOR HARKIN

WATER QUALITY INCENTIVES PROGRAM

Question: How are we going to address the water quality on a broader scale if we do not use the incentives program?

Answer: Water quality and water conservation have been resource concerns in ongoing USDA conservation program operations for a number of years and continue to gain prominence. This is displayed in the 1988-97 update of the USDA National Soil and Water Conservation

Program which elevated the protection of the quality of surface and ground water to the second priority of the program.

Examples of SCS activities directed primarily at water quality problems include: improving water quality at site specific locations through programs such as the SCS Water Resources Programs, the Great Plains Conservation Program, the Resources Conservation and Development Program, the Plant Materials Program, and the Rural Abandoned Mine Program; technical assistance for planning and installation of conservation practices under the Agricultural Conservation Program (ACP) and Rural Clean Water Program (RCWP) administered by ASCS; installing best management practices that control agricultural pollution and salinity entering the Chesapeake Bay, the Great Lakes, the Gulf Coast, the Tennessee Valley, Puget Sound, and the Colorado River Basin; and providing natural resource technical expertise to the Environmental Protection Agency and state and local water quality agencies.

SCS is providing technical assistance to USDA programs as part of the President's Water Quality Initiative. USDA water quality activities include focusing technical assistance, financial assistance and research to nonpoint source hydrologic unit areas, demonstration projects, regional projects, and the Midwest Initiative for Technology Transfer. The 1992 budget includes $5 million, to be funded through ACP, for up front funding to enroll about 100,000 acres in the Water Quality Incentives Program.

The FACT Act also provides specific authority to enroll land in the Conservation Reserve Program (CRP) under water quality related criteria. CRP land eligibility has been expanded to increase water quality benefits. During the latest CRP signups, scheduled for March 4-15, the Department gave enrollment priority to such areas as newly created sod waterways and filterstrips, wellhead protection areas, saline lands and other cropland that contribute to water quality degradation.

Question: For 50 years the soil conservation effort relied on research and education to little effect. We got results when we provided cost-sharing and we didn't really see progress until conservation compliance in the 1985 farm bill -- sort of a negative incentive program. Why should we expect any different experience with water quality -- that is, to expect progress without offering some incentives?

Answer: We agree that incentives can be critical in achieving some water quality objectives. The 1992 budget includes $5 million to initiate the Water Quality Incentive Program as authorized by the FACT act. By enrolling in this program, producers would receive incentive payments to implement a water quality protection plan. The budget also continues cost-share funding at the 1991 level of $23 million to fund current programs in designated and special water quality project areas. We feel that these cost-share programs in conjunction with education and technical assistance activities provide the needed incentives to encourage the adoption by farmers of new environmentally sensitive management practices.

SCS TECHNICAL ASSISTANCE

Question: It is critical that SCS provide the technical assistance farmers need to carry out their conservation plans. The budget requests an increase in the SCS funding for technical assistance, but I am concerned this is not enough.

Please provide me the SCS estimates of the SCS personnel needed to provide technical assistance in carrying out the 1985 and 1990 farm bills and the number of technical personnel who will be available. I understand we are short by several hundred people in Iowa alone.

Answer: Our current estimate for the 1985 and 1990 Farm Bills is 6,900 staff years of technical assistance needed by farmers in fiscal year 1992. The 1992 budget proposal would provide 4,200 staff years of technical assistance available for this work. Iowa and 24 other states would be short of SCS people to supply all of this assistance. However, SCS will continue to have group training sessions for farmers and others who can provide assistance as the opportunity presents itself and to actively seek ways to increase our efficiency in order to improve the situation.

QUESTIONS SUBMITTED BY SENATOR BYRD

WEST VIRGINIA FLOOD CONTROL PROJECTS

Question: Please provide a full list of all flood control projects in West Virginia that are currently under construction, the dollar amounts associated with that construction, and a timetable for the completion of each project.

Answer: We will be happy to provide a list for the record. [The information follows:]

WEST VIRGINIA FLOOD CONTROL PROJECTS
CURRENTLY UNDER CONSTRUCTION

Watershed	Authority	Estimated Federal Cost	Estimated Completion Date
Upper Buffalo Marion County Dam No. 33A	Pub. Law 83-566	$2,200,000	10/92
Upper Mud River Lincoln County Dam No. 2A (Phase I)	Pub. Law 83-566	$5,600,000	3/91
Wheeling Creek a/ Ohio County Dam No. WF-3	Pub. Law 83-566	$16,500,000	12/94

Opequon Berkeley County Water Quality Measures	Pub. Law 83-566	$80,000	12/91
Teter Creek Barbour County Land Treatment Measures	Pub. Law 83-566	$100,000	12/92
Indian Creek Monroe County Land Treatment Measures	Pub. Law 83-566	$100,000	12/92

a/ Phased option contract.

WEST VIRGINIA PHASED CONTRACTS

Question: Please provide a list of those West Virginia projects for which phased contracts have been let; the current status of those projects, and a timetable for going to the second phase of the contract. Also include the costs associated with each project and phase.

Answer: West Virginia has one phased contract underway, Wheeling Creek. The Wheeling Creek contract is obligated and the contractor has started construction. The estimated date of the second phase of the contract is November 1992. Federal cost funded for phase I is $9,000,000. Federal cost for phase II is estimated to be $7,500,000 and is planned for funding in fiscal year 1992.

UPPER MUD RIVER

Question: Phase I of Upper Mud River Site 2A in Lincoln County, West Virginia, was completed in December of 1990; leaving the dam only half finished. It is my understanding that the local share is in hand. When do you plan to make funding available to complete this dam?

Answer: Construction of Mud River Site 2A is being handled with two separate contracts. Major work elements were completed on the first contract in December 1990. Minor items (patching concrete anchor holes) are to be completed in the spring of 1991. Current plans are to make funds available for the second contract in October 1991 which will complete funding for this dam.

WEST VIRGINIA FLOOD CONTROL PROJECTS WAITING FUNDING

Question: Please provide a list of all of those West Virginia flood control projects for which feasibility studies have been completed and could go to construction, as well as a timetable for initiating these projects.

Answer: We will be happy to provide a list of those projects authorized by Congress but not funded and those that are in planning.

[The information follows:]

WEST VIRGINIA
PROJECTS AUTHORIZED BY CONGRESS AWAITING FUNDING

Watershed Name (County and Structure)	Authority	Estimated Federal Cost	Year Project Will Be Ready For Construction a/
North & South Mill Creek			
Grant County			
Dam No. 7	PL 78-534	$10,000,000	1992
Howards Creek			
Greenbrier County			
Dam No. 12	PL 83-566	$10,000,000	1992
Channel Improvement	PL 83-566	$3,000,000	1995
Mill Creek			
Jackson County			
Dam No. 10	PL 83-566	$8,000,000	1993
Dam No. 6	PL 83-566	$2,500,000	1995
Cranberry-Little Whitestick			
Raleigh County			
Cranberry Channel	PL 83-566	$9,000,000	1993
Little Whitestick Channel	PL 83-566	$4,000,000	1995
Lost River			
Hardy County			
Dam No. 4	PL 78-534	$9,000,000 b/	1991
Dam No. 10	PL 78-534	$3,600,000	1994
Dam No. 27	PL 78-534	$3,500,000	1995
Dam No. 23	PL 78-534	$3,000,000	1997
Dam No. 16	PL 78-534	$6,000,000	1999
Upper Mud River			
Lincoln County			
Recreation Facility	PL 83-566	$1,000,000	1992
South Fork			
Pendleton County			
Dam No. 20	PL 78-534	$8,000,000	1996
Patterson Creek			
Mineral County			
Dam No. 31	PL 78-534	$2,000,000	1994
Dam No. 23	PL 78-534	$2,500,000	1995
Dam No. 43	PL 78-534	$2,000,000	1996
Channel	PL 78-534	$100,000	1996
Elk Twomile			
Kanawha County			
Dam No. 14	PL 83-566	$2,000,000	1996
Indian Creek			
Monroe County Land Treatment Measures	PL 83-566	$200,000	1992/1994

Watershed Name (County and Structure)	Authority	Estimated Federal Cost	Year Project Will Be Ready For Construction a/
Teter Creek Barbour County Land Treatment Measures	PL 83-566	$200,000	1992/1994
Opequon Creek Berkeley County Water Quality Measures	PL 83-566	$300,000	1992/1994

a/ The actual timetable for beginning project construction is contingent upon the readiness of local sponsors to proceed and the availability of federal funds.

b/ Awarding of phased contract awaiting resolution of litigation decision. Funds of $4,500,000 available for phase I of contract. Remaining funds will be agreed to with West Virginia at award of contract.

WEST VIRGINIA
PROJECTS IN PLANNING

Watershed Name (County and Structure)	Authority	Estimated Federal Cost	% Planning Complete
Lower Mud River Cabell County Channel Improvement	PL 83-566	$14,400,000	99%
Reedy Creek Wirt-Roane Counties Land Treatment Measures	PL 83-566	$1,100,000	95%
Upper Buffalo Marion County Channel Improvement	PL 83-566	$12,100,000	60%

FY 1992 BUDGET PRIORITIES

Question: The FY 1992 budget request includes an increase of $50 million for conservation, much of which comes from the watershed and resource and conservation development programs. Have you now decided that flood control is no longer a priority?

Answer: Reducing upstream flood damage continues to be an objective of the programs administered by the Soil Conservation Service. The FY 1992 budget request reflects the need to balance program benefits, existing commitments, the implementation of the 1985 and 1990 farm bills and federal spending constraints.

QUESTIONS SUBMITTED BY SENATOR JOHNSTON

LOUISIANA WETLANDS

Question: The State of Louisiana has initiated a multifaceted coastal wetlands restoration effort. The Soil Conservation Service and the personnel of the Golden Meadow Plant Materials Center have special expertise in developing superior strains of plants designed to withstand changing ecological conditions in coastal marshes. This expertise could make a significant contribution to efforts by Louisiana interests to implement an aggressive revegetation program to reduce the losses of coastal marshes in Louisiana.

Last year the Committee endorsed efforts for the Service to investigate the feasibility of participating in this effort. A report on the feasibility of the Service participating in this effort was due on February 1st. What is the status of the report?

Answer: The report is completed and will be transmitted to the Appropriation Committees in early April.

Question: What is the report's recommendation?

Answer: The Louisiana Office of Coastal Restoration has entered into an agreement with the Louisiana Soil and Water Conservation Committee to install a number of revegetation projects, as a part of the overall restoration efforts under way in Louisiana. Currently, the USDA-Soil Conservation Service Plant Materials Center at Golden Meadow, LA is the only source with the production potential to supply the required planting stock.

The Soil Conservation Service has increased funding for the Center to nearly $500,000 in fiscal year 1991. This level of funding is planned for the next two years to provide the resources necessary to produce the plants needed during the interim period while SCS trains private sector producers to continue production of future plant demands.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

STAFFING REQUIREMENTS

Question: Reports I have received from the field indicate that although conservation activities required by the 1985 and 1990 farm bills are being carried out, the "traditional" conservation job or work is not getting done. Is this an accurate report and would you care to comment further?

Answer: To the extent that the "traditional" work and the farm bill activities are the same, that is reducing erosion on cropland, the "traditional" work is getting done. However, in areas where the "traditional" work is directed towards other conservation concerns, such as water management, forestry, urban conservation and range management, this work is being delayed.

Question: What kinds of staffing would be necessary to perform all of the activities assigned to SCS?

Answer: If we continue to provide assistance for the design and implementation of compliance plans, as well as for the creation of the plan, and some limited resources for water quality, an additional 2,700 staff years above 1991 is required. These estimates do not capture assistance that SCS traditionally provided in water management, range management, forestry management, urban conservation, and other activities that conservation districts and landusers are requesting.

Question: Are you concerned about the quality of the services being provided by SCS due to increased demands?

Answer: Yes, we always are concerned with quality and are making improvements whenever possible.

COMPUTERIZATION OF FIELD OFFICES

Question: I understand that computerizing your field offices is critical in meeting workload demands. What is the status of this effort?

Answer: The effort is approximately 60 percent complete.

Question: What funding is needed to provide the basic software and hardware for your field offices?

Answer: The President's request of $15 million together with our current level of effort will be sufficient to provide a base level of computer support for our field offices by the end of 1992.

NONPOINT SOURCE AGRICULTURE RELATED WATER QUALITY

Question: What do you see as your capability in addressing nonpoint ag-related water quality problems?

Answer: Two primary conditions are required to address water quality as affected by agriculture. These are: (1) an adequate professional water quality technology base, and (2) a capable field delivery organization to provide technical assistance to the farmer. The Soil Conservation Service is well prepared in both.

Through a history of dealing with water problems the Soil Conservation Service has built a strong technical organization. This organization has developed conservation practices that have proven effective in such areas as animal waste management, irrigation water management, plant materials and salinity reduction. The SCS field Office Technical Guides and Handbook of Conservation Practices set national standards for soil and water conservation technology.

Utilizing the delivery organization available through the 3,000 plus Conservation District offices the SCS has rapidly initiated technical assistance for water quality via 74 Nonpoint Source Hydrologic Unit Areas and 16 Water Quality Demonstration Projects. SCS is also providing the technical assistance necessary to implement ASCS Water Quality Special Projects. Lastly, regional water quality

efforts such as the Chesapeake Bay Program, National Estuary Program and Colorado Salinity Control depend heavily upon SCS technical assistance support.

EMERGENCY MEASURES

Question: As you know, Mississippi as well as other parts of the country, have encountered severe damage caused by freezing, flooding, and drought. Do you have any estimates you could share with us on the needs for rehabilitation?

Answer: Rehabilitation of works of improvements installed under the authorities of the various SCS water resource programs is a concern of local sponsors and SCS. To address this need, SCS has recently completed an evaluation of the installed infrastructure of 10,000 flood prevention dams and reservoirs. Many of these dams have been in service for more than 30 years. The evaluation shows an estimated need of $600,000,000 over the next 10 years to maintain, rehabilitate, and decommission installed works. Rehabilitation would be in excess of normal operation and maintenance and includes work to correct structural deficiencies, replace obsolete or damaged materials, upgrade dams to meet current safety requirements, and modify the functioning of the dam to be commensurate with current land use.

Under program guidelines, SCS provides only technical assistance to sponsors for such works unless the rehabilitation is to correct a problem caused by a mistake in judgement by SCS during construction or as a result of latent site conditions. The estimated $60,000,000 annual need to accomplish the rehabilitation is divided at $20,000,000 federal and $40,000,000 non-federal.

Question: Please provide for the record needed amounts by project and state, and advise how you are addressing these needs?

Answer: An estimate by state is not available but the southern, southwestern and midwestern states have installed the most dams and reservoirs and, therefore, have the greatest need. Currently, about $5,000,000 for remedial work and technical assistance is provided from the annual appropriated budget. This results in delaying construction for new works in approved watershed plans.

QUESTIONS SUBMITTED BY SENATOR KASTEN

COSTS OF THE WETLAND RESERVE PROGRAM

Question: Mr. Richards, what do you figure will be the average cost per acre of wetland restored under this program? Please provide a breakdown of these costs by actual land cost (what the landowner gets), legal and other costs associated with completing and recording the easement, technical assistance costs for development of the restoration plan and supervising construction.

Answer: The Soil Conservation Service has the technical responsibility for restoring wetlands in association with

implementing the Wetlands Reserve Program. This program requires considerable coordination and consultation with other USDA agencies as well as other Federal departments. A restoration plan will be developed in consultation with the landowner and Fish and Wildlife Service. This plan will require planning that will aid the landowner in making a decision on whether or not to grant an easement.

SCS will provide the technical assistance to determine program eligibility, develop the restoration plan, design the practices, supervise construction, and perform status reviews. Based on the assumption that the average size of wetland easement will cover 20 acres we estimate these costs at $124 per acre. Our estimate of construction costs are about $200 per acre which will be eligible for cost share assistance from ASCS. ASCS estimates that land surveys per easement will range in cost from $350 to $1,000, appraisals will range in cost from $250 to $800 per easement, and the update of the abstract, recording fees, attorney fees and various taxes will range from $250 to $750 per easement.

WORKLOAD ASSOCIATED WITH WETLANDS

Question: Mr. Richards, for farmers to take full advantage of the opportunities in the 1990 Farm Bill the SCS needs to finish delineating all the wetlands in farmland, develop the Swampbuster mitigation and restoration plans, make the field eligibility determinations and develop restoration plans for the Wetland Reserve Program, and design and supervise construction of the restoration work; while answering all the farmers questions.

What is your estimate of the workload in terms of getting the job done? I would like your answer in terms of work units - how many wetland restoration plans, how many wetland determinations, how many mitigation plans? How many easements in exchange for debt relief will SCS evaluate?

Answer: In terms of work units, we have estimated that the following wetland conservation work units remain to be completed.

	Number	Acres
Wetland determinations.....	1,200,000	unknown
Wetland restoration plans (good faith sanction provision of the 1990 farm bill)	1,500	14,000
Mitigation plans and easements.....	900	30,000
Wetland Restoration Plans (Wetland Reserve Program).....	30,000	600,000

Basis:

Restoration Plans (good faith): 500 restorations + 200/year between 1991-1995.

Mitigations: 180 per year between 1991 - 1995.

WETLANDS BIOLOGY EXPERTISE

Question: Mr. Richards, since 1985, the SCS has been called upon to provide more and more wetlands biology expertise and technical assistance. The new Farm Bill expands that role.

How many biologists with the professional expertise needed to do this job were employed by the SCS in 1985 before Congress started putting increased emphasis on the protection of wetlands?

Answer: Prior to the 1985 Farm Bill SCS employed 115 biologists.

Question: How many are on the SCS staff nationwide?

Answer: There are currently 85 biologists employed nationwide by SCS.

QUESTIONS SUBMITTED BY SENATOR BOND

TECHNICAL ASSISTANCE FOR FARMERS

Question: The February issue of Farm Journal sighted a GAO study saying "SCS lacks sufficient staff and cost-share funds to help farmers carry out their plans in just three states, Iowa, Missouri, Kansas." If technical assistance will not be an excuse for being out of compliance, where else will these farmers turn for help?

Answer: Potential sources of technical assistance including soil and water conservation districts; other Federal, state, and local agencies; private industry; and private contractors. SCS has conducted informational meetings and training sessions for all of these alternate sources to assist in the effort.

Question: How do you plan to correct this problem?

Answer: The President's 1992 budget proposes to address the need for increased technical assistance in two ways. The number of SCS field office employees in high Farm Bill workload states would be increased by nearly 670 staff years to help farmers carry out their conservation plans. Also, productivity would be increased in field offices that currently do not have adequate automated data processing capability through the purchase of computer hardware and off-the-shelf software. Providing adequate automated data processing capability to these offices will increase the amount of technical assistance farmers will receive because less time would be spent by SCS employees performing required manual tasks such as record keeping and data sharing. SCS will continue to have group training for farmers and others who can provide technical assistance as the opportunity presents itself and the situation presents itself.

TECHNICAL ASSISTANCE NEEDED FOR THE 1985 AND 1990 FARM BILLS

Question: What is your estimate of staff years of technical assistance needed by producers to implement their conservation plans and to comply with the conservation provisions of the 1985 and 90 farm bills?

Answer: Our current estimate is a total of 35,325 staff years. 24,231 staff years of technical assistance is required for the period of fiscal year 1992 through fiscal year 1995 under current program

assumptions, which include assistance, designing and implementing the plans, as well as preparing them. Under these assumptions, the estimate for fiscal year 1992 is 6,900 staff years of technical assistance.

Question: Of the needed technical assistance identified, how much can be provided in terms of direct technical assistance to producers in the Administration's budget proposal?

Answer: The Administration's budget proposal would provide approximately 4,200 staff years of technical assistance for fiscal year 1992.

Question: Missouri will gain an additional 51 staff years in this budget, but needs a total of 91 staff years, should technical assistance be an excuse for being out of compliance when we are 40 staff years short?

Answer: The Food Security Act of 1985 does not provide for exemptions for conservation compliance even if good faith efforts by farmers are evident or if SCS cannot provide the technical assistance necessary to implement their plans.

CONSTRUCTION BACKLOG

Question: Given the administration's request for reduced funding for the watershed program, how do you propose to address the construction backlog and the commitments your agency has made to project sponsors?

Answer: The proposed funding level would provide sufficient funds for technical assistance and for contract modification costs to continue work already underway at the beginning of FY 1992. Financial assistance funds available for contract modifications and for new contracts for individual construction units in small watershed projects already under construction would be about 76 percent of the FY 1991 level. Construction on 30 unfunded construction units would be delayed until future years.

Priorities for project construction are established at the state level considering the urgency of the problem to be addressed, expected project benefits, cost effectiveness, environmental impacts, and the readiness of local sponsors to proceed. Non-structural land treatment measures and local cost sharing are emphasized to ensure continued program effectiveness. Efforts are underway to work with local project sponsors to eliminate planned work that is no longer economically or environmentally feasible.

DEVELOPMENT OF WATER QUALITY PLANS

Question: With the requirements in the 1990 Farm Bill to develop water quality plans for individual landowners, does your agency have the trained staff to develop meaningful plans in a timely manner?

Answer: The Soil Conservation Service does not have the cadre of trained personnel to fully implement the Water Quality Protection Program on 10 million acres as established by the 1990 Farm Bill.

We are currently training personnel in all states to meet this need on a very limited basis. Sufficient staff will be available to develop plans on 100,000 acres as is proposed in the 1992 budget.

Question: What is your staff year requirement over and above your other technical assistance?

We estimate the technical assistance costs of developing water quality plans on 10.0 million acres to be $45.0 million over the period 1992-1995. This equates to an additional 225 staff years, annually.

PL-566 USE IN RURAL DEVELOPMENT

Question: A major concern of Rural Development is an adequate and safe supply of water to rural residents. How can SCS utilize the PL-566 program to assist rural residents meet this need?

Answer: Watershed projects planned and installed under the PL-566 authority use a comprehensive approach in dealing with all the water and related land resource problems and opportunities in the project area. Rural water supply, where needed, is always encouraged to be included in the project plan.

Question: Is SCS utilizing all authorities available to address this need?

Answer: The PL-566 authority allows water supply to be included in projects as a beneficial purpose. The authority provides for federal cost sharing at a rate of 50% to encourage inclusion of the water supply purpose. Administrative policy is to encourage the inclusion of the water supply purpose but not to provide federal cost sharing for the installation in favor of charging all costs to the direct beneficiaries.

Question: What budget implications would result if it did?

Answer: Historically, about 12% of the 1,500 approved PL-566 projects have the water supply feature included and paid for with non-federal funds. We would expect this percentage to increase if 50/50 federal cost sharing were offered. Using current program trends, it is estimated that an additional $5,000,000 per year of federal funds would be needed to accommodate a decision to offer 50/50 cost sharing to install the rural water supply purpose.

Question: The East Yellow Creek Watershed Project has been denied funding when it clearly would be used primarily for agricultural use, why?

Answer: The East Yellow Creek Watershed, Missouri was planned under authority of PL 83-566. As planned, this project contained a multipurpose dam that contained storage for both flood prevention and a water supply for the Linn-Chariton Public Water Supply District No. 3. After review by the administration, it was determined that the water supply should be classified as a Municipal and Industrial water supply since the water would be conveyed to treatment facilities and distributed primarily for domestic,

business and industrial use. It would therefore not be subject to cost sharing with PL-566 funds.

Question: Have you changed the rules on watersheds?

Answer: The program rules on PL-566 watershed projects have not changed. The PL-566 authority allows water supply to be included in projects as a beneficial purpose. The authority provides for federal cost sharing at a rate of 50% to encourage inclusion of the water supply purpose. Administrative policy is to encourage the inclusion of the water supply purpose but not to provide federal cost sharing for the installation in favor of charging all costs to the direct beneficiaries.

QUESTIONS SUBMITTED BY SENATOR SARBANES

RESOURCE ALLOCATION TO CHESAPEAKE BAY

Question: In the Senate Committee report to accompany the FY 91 Agriculture Appropriations bill, the Committee stated that "$4,500,000, $700,000 more than the 1990 amount, (was provided) for the Chesapeake Bay program. This amount will support no fewer than 62 staff positions for this project and will enhance automation systems in the bay area." How are these resources being allocated?

Answer: The resources directed to the Chesapeake Bay Program are allocated to the six states in the watershed area and the District of Columbia for activities mandated by the Restoration Plan.

Question: What is expected to be accomplished with the funding?

Answer: The resources are being utilized to provide technical assistance to Bay landowners in planning, designing, and implementing best management practices in support of State and Federal cost-share programs for the control of nonpoint source pollution.

Question: Did the agency need to redirect funds from other programs to meet the Congressional directives for the Chesapeake Bay Program?

Answer: SCS did not need to redirect funds from other programs to meet the Congressional directives for the Bay Program.

DE-EMPHASIZING REGIONAL PROGRAMS

Question: The President's proposed budget for the agency in FY 1992 does not identify additional funds for regional projects with critical water quality concerns as was done for FY 1991. Does this mean regional projects are bing de-emphasized?

Answer: The FY 92 budget for activities covered under the President's Water Quality Initiative has no increase for regional water quality programs. Existing regional programs will be supported at FY 91 levels. This does not mean that regional projects are being de-emphasized.

Question: Are they becoming part of other water quality initiatives?

Answer: No, ongoing programs will continue at current levels.

Question: Are there plans to further accelerate technical assistance to areas with significant regional water quality concerns?

Answer: There are no plans to further accelerate technical assistance to areas with significant regional water quality concerns in fiscal year 1992.

TARGETING SMALL WATER QUALITY LAND AREAS AND DISPARATE EFFORTS

Question: The Chesapeake Bay Program's Nonpoint Source Evaluation Panel recently released a report on the effectiveness of state and federal efforts to control nonpoint sources of water pollution in the Chesapeake Bay. Among other things, the report found that "the efficiency of nonpoint pollution control efforts needs to be improved through targeting and through better management of resources, so that maximum pollution reduction is achieved per unit of program resources expended." If adequate funding were available, would SCS be willing to develop a pilot program with local conservation districts in the Chesapeake Bay basin to demonstrate the benefits and effectiveness of targeting smaller land areas for water quality improvements rather than whole counties or watersheds." What resources would be needed to implement such a program?

Answer: It is our opinion that a pilot program is not necessary. We feel that our efforts through USDA's Water Quality Initiative and more specifically in the Regional Program is based on the principle of developing solutions to landowners problems by cooperating with State and local governments and interest groups. Our efforts in the Chesapeake Bay often focus on subwatersheds, they target water quality technical assistance to high priority critical areas, and they seek input and council from all interested groups and individuals.

Question: Is there a plan to coordinate the disparate nonpoint source control programs such as the Section 319, CRP, and soil erosion control efforts?

Answer: There is no specific plan to coordinate nonpoint source control programs, because we believe that there is no disparity between section 319 plans, the CRP and erosion control efforts as related to water quality efforts in the Bay. Ongoing water quality project areas, such as the Chesapeake Bay, and designated hydrologic unit areas are given preference in CRP enrollments. Hydrologic unit area selections and plans of work are based on 319 plans. Soil erosion control efforts are targeted to the most highly erodible land that contribute the most sediment in the Bay area. We believe, therefore, that adequate coordination is built into the overall effort.

SUBCOMMITTEE RECESS

Senator BURDICK. This concludes today's hearing. Our next hearing will be held next Friday, March 15, in this same room, at 10 a.m. The subcommittee will receive testimony from the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and the Agricultural Marketing Service.

The subcommittee stands in recess.

[Whereupon, at 11:35 a.m., Friday, March 8, the subcommittee was recessed, to reconvene at 10:05 a.m., Friday, March 15.]

38-687 O—91——11

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

FRIDAY, MARCH 15, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin Burdick (chairman) presiding.

Present: Senators Burdick, Cochran, and Bond.

DEPARTMENT OF AGRICULTURE

STATEMENT OF JO ANN SMITH, ASSISTANT SECRETARY FOR MARKETING AND INSPECTION SERVICES

ACCOMPANIED BY DENNIS KAPLAN, BUDGET OFFICER

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

STATEMENT OF DR. JAMES W. GLOSSER, ADMINISTRATOR

FOOD SAFETY AND INSPECTION SERVICE

STATEMENT OF DR. LESTER CRAWFORD, ADMINISTRATOR

AGRICULTURAL MARKETING SERVICE

STATEMENT OF DANIEL D. HALEY, ADMINISTRATOR

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on fiscal year 1992 budget for Agriculture, Rural Development, and Related Agencies. We will review the budget for the Animal and Plant Health Inspection Service, the Food Safety and Inspection Service, and the Agricultural Marketing Service.

Our witnesses are Jo Ann Smith, Assistant Secretary for Marketing and Inspection Services; James Glosser, Administrator, Animal and Plant Health Inspection Service; Lester Crawford, Administrator, Food Safety and Inspection Service; Daniel Haley, Administrator, Agricultural Marketing Service; and Dennis Kaplan, Budget Officer, USDA.

Welcome to all of you.

As a broad overview, in comparison to 1991 funding, I note that the budget for APHIS is increased by $31 million. The budget for FSIS is increased by $33 million. And the Agricultural Marketing Service budget is up $25 million, or 43 percent.

Ms. Smith, I will ask you to make an oral statement after which we will entertain questions from the subcommittee for each of the agencies.

Ms. SMITH. Thank you, Mr. Chairman. As you have noted, the Administrators are with me, and they have prepared statements which we will ask that you enter for the record.

The Food, Agriculture, Conservation and Trade Act of 1990 contained several major titles and many other provisions affecting the marketing and inspection of agricultural commodities. These include dairy, fruits, vegetables, vegetable commodity research and promotion programs, grain quality, organic certification, pesticide recordkeeping, and APHIS user fees. We have evaluated these authorities and have begun implementing some of the provisions where appropriations already exist. Some of the provisions are included in the 1992 budget.

The Marketing and Inspection Service programs create fair and competitive markets. These services assist with the movement of safe, high-quality commodities from the farm gate through the marketing chain.

Commodity groups willingly pay for some of the services. Industry assessments pay for research and promotion programs. Fees are charged for voluntary commodity grading programs. Fees are collected for grain weighing and inspection services. And recently, the FACT Act, as amended by the Omnibus Budget Reconciliation Act mandated fees for border inspections to prevent the introduction and spread of pests and diseases.

Food safety is a top priority. Our meat and poultry inspectors are literally on the front line in protecting the public health of the consumers. Last year, Congress supported the pesticide data program initiative for fruits and vegetables. We will continue to ensure that America has an abundant source of safe, wholesome, affordable, and high quality food products.

For fiscal year 1992, the total program level for Marketing and Inspection Services is proposed at $1.2 billion, an increase of $79 million or about 6.8 percent over the fiscal year 1991 level. A number of these programs are financed through user fees and trust funds. Consequently, the appropriation request is only for $946 million under current law. Several legislative proposals would convert additional activities to cost-sharing and user fees. These proposals would result in appropriated savings of about $73 million.

I will use the remainder of my time, Mr. Chairman, to highlight the Department's budget request for the marketing and inspection area.

FOOD SAFETY AND INSPECTION SERVICE

FSIS, of course, is our science-based meat and poultry inspection agency, pledged to ensure the public receives only safe, wholesome, and accurately labeled products. To fulfill its commitment, FSIS has emphasized advancement in the following areas:

Introduction of the HACCP program, which is the hazard analysis and critical control points system, into the inspection methods, food labeling reform, microbiological control, public information and consumer education, work force diversity, and total quality management.

In the past year, FSIS has taken major strides toward the introduction of HACCP into meat and poultry inspection. HACCP is designed to prevent food hazards before they occur rather than detect problems after they occur. HACCP uses scientific data to identify potential food hazards and determine appropriate control measures. HACCP also includes a system of monitoring and reporting to prevent hazards and document food safety.

At this point, FSIS has held more than 100 meetings and met with more than 3,000 individuals to explain and solicit recommendations regarding HACCP. The second phase of HACCP deliberations began in February and will be completed in 1992.

In this phase, the agency is holding workshops with industry to develop the model plans for the following products: refrigerated foods, cooked sausage, poultry slaughter, fresh ground beef, and swine slaughter.

FSIS will perform in-plant testing of the model HACCP plans followed by an evaluation of the HACCP implementation. A Federal Register notice was published in January seeking volunteer meat and poultry plants for in-plant testing.

In addition, criteria for evaluating in-plant testing of the model HACCP plans have been drafted and are undergoing scientific peer review. Only after evaluation of the study is completed will FSIS make a decision on whether to go forward with HACCP.

Food labeling continues to be a great concern to FSIS. Consumers need accurate information to make knowledgeable choices and industry needs a regulatory system that is responsive to changing consumer demands.

This spring, FSIS expects to publish an advanced notice of proposed rulemaking to seek input on a variety of nutrition labeling issues for meat and poultry products. The agency will strive to finalize our nutrition labeling policy by May 1993.

Through the development of this policy, FSIS will draw on the findings of the recent National Academy of Sciences study on nutrition labeling. FSIS will work with the Food and Drug Administration to harmonize nutrition labeling requirements and regulations for foods.

The funding needs for FSIS continue to remain at a critical level for 1991. A supplemental of $8 million has been requested to maintain mandatory in-plant inspection and to take over the State of Maryland's inspection program as of March 1991.

FSIS has taken all the steps possible to contain costs. However, at the current level of funding, we will be unable to fulfill its obligation to perform mandatory inspection of a growing meat and poultry production industry.

In 1992, FSIS is proposing a program level of $474.7 million, an increase of $24.5 million over the 1991 current estimate. The total increase of $24.5 million will fund increased pay costs. At this level, FSIS will be able to maintain mandatory inspection.

Legislation will be submitted to require the meat and poultry industry to share 50 percent of inspection costs for daily shifts of inspection provided beyond a single approved shift. Plants that operate beyond their regularly scheduled shift already pay overtime costs of inspectors.

However, plants that operate full second shifts are provided inspectors without reimbursing the Federal Government. Smaller plants, which do not have enough production to regularly fill a complete second shift are required to pay overtime when inspectors are needed a few hours beyond the first 8-hour shift. In effect, the larger plants are operating in a permanent overtime status without having to pay for inspection services.

Under our proposal, plants would continue to receive free inspection for one approved shift each day. We estimate that FSIS would collect as much as $50 million if the legislation were enacted.

In addition, legislation will be proposed to allow establishments to voluntarily pay for required inspection when Federal funding is unavailable due to a sequester. Current law does not permit such a procedure, even when the industry is willing to fund inspection services.

We believe this proposal will help prevent disruptions in the marketing of meat and poultry products, as well as provide the consumers assurances that meat and poultry products are safe, wholesome, and unadulterated during a time of reduction in funding.

AGRICULTURAL MARKETING SERVICE

The programs of AMS enhance the marketing and distribution of agricultural products. For 1992, we are proposing $238.7 million of program activity, of which $165.3 million would be funded by user fees. We are requesting $67 million in appropriated funds and $6.4 million for administrative expenses for section 32.

AMS has begun administering a national pesticide residue monitoring program. Contracts are being entered into with six States to sample and test for pesticide residues in fresh fruits and vegetables within marketing distribution channels. Those States are California, Florida, Michigan, New York, Texas, and Washington. We have been working with the Food and Drug Administration and the Environmental Protection Agency from the beginning to eliminate duplication of effort.

In 1992, we are requesting an additional $10 million for AMS to increase the level of sampling and the number of commodities included under the program. Without an expansion of this program, compilation of a broad range of information for risk assessment and management procedures will be impossible.

The Egg Products Inspection Act provides authority for mandatory continuous inspection programs for processed egg products. All eggs processed for human consumption must be pasteurized, which eliminates Salmonella, including the enteritidis strain. In 1992, we are proposing an $800,000 increase to enhance continuous inspection of egg products.

The AMS budget for 1992 also includes $3.1 million to implement provisions of the FACT Act. It includes $1.5 million to implement pesticide recordkeeping requirements, a one-time appropriation of $1.4 million to implement the National Laboratory Accreditation

Program, and $173,000 to evaluate possible alternatives to the Minnesota-Wisconsin price series for milk.

For 1992, we are requesting a one-time appropriation of $1.3 million to recapitalize the dairy grading program. During the latter part of the 1980's, legislative changes reduced the demand for grading services. As a result, the dairy grading program experienced a sudden and severe decline in revenues. In response to the changing demand for services, all but one regional office was closed, staff was reduced by more than one-half, and fees were increased.

But despite that effort, the program depleted its operating reserve and accumulated a deficit. We are requesting this appropriation so we can continue to provide dairy grading services without placing an undue hardship on the dairy industry.

Many marketing activities provide direct benefits to the private sector and are funded through user fees. Therefore, we are proposing legislation to convert $15.6 million appropriated funding to user fees. These activities include AMS costs for the administration of marketing agreements and orders, development of standards and specifications, and the dissemination of tobacco news reports.

As you are aware, Mr. Chairman, the activities of the Office of Transportation were incorporated into AMS. This action was taken to improve the coordination of transportation and marketing policies of the Department.

We reviewed our marketing service agencies to determine where we could consolidate functions in order to become more efficient. AMS has comprehensive marketing program responsibilities, but the one thing that appeared to be missing in its efforts to assist the movement of products efficiently from farm to the consumer was a transportation program. Therefore, it seemed to be a logical approach to merge OT with AMS. We also felt that we could achieve economies of scale by moving OT into a larger organization of 6,000 employees. We also believed we could achieve synergism by consolidating two very important AMS marketing functions, wholesale market development and payments to States, with the transportation functions. The merger will allow cross utilization of personnel as well as expertise.

While OT has historically placed heavy emphasis on the grain and feed industry, moving it to AMS will bring its expertise to all producer segments such as fruits and vegetables, livestock, and others so that all can benefit from the transportation services USDA provides.

At the requested level of funding, the agency will be able to maintain the same level of transportation-related services and analyses. While OT will not be a separate agency, AMS will continue to develop and promote efficient transportation systems. The merger of the transportation and market development programs will strengthen the Department's efforts to improve the marketing of agricultural products for the benefit of both the producer and the consumer.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

APHIS is responsible for protecting American agriculture by preventing the introduction of destructive foreign plant and animal diseases and animal pests, monitoring plant and animal health,

conducting programs to prevent, detect, and eradicate harmful pests and diseases, and developing methods to control detrimental animals and pests.

APHIS is also responsible for administering the Animal Welfare Act and to ensure humane care and treatment of warmblooded animals used for research, exhibition, or sold wholesale as pets.

The FACT Act gave APHIS the authority to recover the costs of providing agricultural quarantine inspection, veterinary diagnostics, and import-export services. APHIS published a proposal to collect user fees for most of its agricultural quarantine inspection activities in the Federal Register on February 27, and plans to begin fee collection for these activities by mid-year of 1991. Fees for the remaining agricultural quarantine inspection activities, and for a portion of APHIS veterinary diagnostics, and import-export activities will be in place by the beginning of 1992.

In February 1990, the Secretary of Agriculture declared a state of emergency due to an outbreak of Mediterranean fruit fly in California. Emergencies were also declared due to an outbreak of the Mediterranean fruit fly in Florida, and the Mexican fruit fly in California. All eradication efforts were successfully completed by November 1990. The total cost of this effort was approximately $80 million, which was shared on a 50–50 basis with California and Florida.

In the area of pest and disease management, APHIS' brucellosis program achieved a major milestone in 1990 when the number of quarantined herds dropped to under 1,000. Substantial improvements in all of class B States also has occurred. In 1990, APHIS also began a program of reducing the incidents and risks of salmonella enteritidis, a poultry disease with public health consequences. This program has led to a decrease in the number of human outbreaks of salmonella enteritidis, through restrictions on eggs and poultry which tests positive for the disease.

In the animal care area, APHIS published the final rule to implement the 1985 amendments to the Animal Welfare Act's requirements concerning exercise of dogs and the psychological well-being of nonhuman primates. These regulations will become effective March 18, 1991. Regulations to implement all of the 1985 amendments, except for the exercise of dogs and psychological well-being of nonhuman primates, became effective October 30, 1989.

We are requesting a program level for APHIS in fiscal year 1992 of $460.5 million, an increase of $12.3 million above the 1991 current estimate. Of this amount, $119.5 million would be funded from user fees and trust funds. The budget includes $16.5 million to cover pay cost increases.

The budget also proposes to increase the Agricultural Quarantine Inspection Program by $15 million, including reimbursements in 1992 for a total program level of $108.3 million, to continue the major defense against the introduction of harmful agricultural pests and diseases into this country.

In 1992, the budget also proposes $5 million to begin a 10-year contract for automated data processing, procurement, and equipment maintenance. APHIS' goal is to replace its current combination of an incompatible, antiquated automated data processing equipment with a fully integrated system that is capable of commu-

nicating and exchanging information throughout the agency as well as other Federal and non-Federal organizations throughout the Nation.

In 1992, this budget proposes a funding level of $20.4 million for APHIS' animal damage control operations. A reduction of $4.2 million from the 1991 level. APHIS would reduce current programs involving direct control and would not expand into new geographic areas or begin new initiatives. APHIS would rely on States and private entities to assume some responsibilities for some of the activities.

We are requesting $23.4 million for APHIS' buildings and facilities account in 1992. Of this amount, $2.5 million is proposed to construct outdoor animal holding facilities for the animal research laboratory at the Wildlife Center in Colorado; $5.4 million is proposed for maintenance and repair of APHIS-operated facilities; $3.5 million is proposed for APHIS' share of improvements and repairs to the facilities at Plum Island in New York; and $12 million is proposed to construct greenhouses and equipment storage buildings, and a utility substation at the National Germplasm Quarantine Center in Beltsville, MD.

Mr. Chairman, we appreciate the opportunity to present the budget for Marketing and Inspection Services. I believe that it proposes funding amounts and sources that will assure the successful accomplishment of this agency and the Department of Agriculture's priorities for 1992.

We appreciate the opportunity to appear before you today, and stand ready to answer questions that you and the members might have.

PREPARED STATEMENTS

Senator BURDICK. Thank you very much, Ms. Smith. We have statements from each of the agencies and the Assistant Secretary. They will be made part of the record in full.

[The statements follow:]

STATEMENT OF JO ANN SMITH

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the Marketing and Inspection Services programs of the U.S. Department of Agriculture and their fiscal year 1992 budget proposals. With me today are Dr. Lester M. Crawford, Administrator of the Food Safety and Inspection Service (FSIS), Mr. Daniel D. Haley, Administrator of the Agricultural Marketing Service (AMS), and Dr. James Glosser, Administrator of the Animal and Plant Health Inspection Service (APHIS).

These administrators have prepared statements for the record and will answer questions regarding the budget proposals for their specific programs.

BUDGET AND PROGRAM POLICY THEMES

The Food, Agriculture, Conservation and Trade Act of 1990 (FACT Act), contained several major titles and many other provisions affecting the marketing and inspection of agricultural commodities. These include dairy, fruits, vegetables, industry supported commodity research and promotion programs, grain quality, organic certification, pesticide recordkeeping and APHIS user fees. We have evaluated these authorities and have begun implementing some of the provisions, where appropriations already exist. Some of the provisions are included in the 1992 budget.

The Marketing and Inspection Service programs create fair and competitive markets. These services assist the swift movement of safe, high quality commodities from the farm gate through the marketing chain.

Commodity groups pay for some of the services. Industry assessments pay for research and promotion programs. Fees are charged for voluntary commodity grading programs. Fees are collected for grain weighing and inspection services. And recently, the FACT Act, as amended by the Omnibus Budget Reconciliation Act (OBRA), mandated fees for the border inspections to prevent the introduction and spread of pests and disease.

Food safety is a top priority. Our meat and poultry inspectors are literally on the front line in protecting the public health of consumers. Last year, Congress supported the pesticide data program initiative for fruits and vegetables. We will continue to ensure that America has an abundant source of safe, wholesome, affordable, and high quality food products.

For 1992, the total program level for the Marketing and Inspection Services is proposed at $1.2 billion, an increase of $79 million, or about 6.8 percent, over the 1991 level. A number of these programs are financed through user fees and trust funds. Consequently, the appropriations request is only about $946 million under current law. Several legislative proposals would convert additional activities to cost-sharing and user fees. These proposals would result in appropriated savings of about $73 million. I will use the remainder of my time to highlight the Department's budget requests for the Marketing and Inspection Services area.

FOOD SAFETY AND INSPECTION SERVICE

FSIS is a science-based meat and poultry inspection agency, pledged to ensure the public receives only safe, wholesome, and accurately labeled products. To fulfill its commitment, FSIS has emphasized advancement in the following areas: (1) Introduction of the Hazard Analysis and Critical Control Point system, also known as HACCP, into inspection methods, (2) Food Labeling Reform, (3) Microbiological Control, (4) Public Information and Consumer Education, (5) Work Force Diversity, (6) Science-based International Food Regulation, (7) Residue Control, and (8) Total Quality Management. At this time I would like to expand on the recent efforts taken by FSIS with respect to HACCP and food labeling reform.

PROGRAM ACCOMPLISHMENTS AND PLANS

In the past year, FSIS has taken major strides toward the introduction of HACCP into meat and poultry inspection. HACCP is designed to prevent food hazards before they occur rather than detect problems after they occur. HACCP uses scientific data to identify potential food hazards and determine appropriate control measures. HACCP also includes a system of monitoring and reporting to prevent hazards and document food safety.

FSIS is in the middle of a four phase study of HACCP. The first phase involving consultations and public hearings has been completed. FSIS has held more than 100 meetings and met with more than 3,000 individuals to explain and solicit recommendations regarding HACCP. The second phase of the study began in late February and will be completed in summer 1992. In this phase, the agency is holding workshops with the industry to develop HACCP model plans for the following products: refrigerated foods, cooked sausage, poultry slaughter, fresh ground beef, and swine slaughter.

FSIS will perform in-plant testing of the model HACCP plans followed by an evaluation of the HACCP implementation. A Federal Register notice was published in January seeking volunteer meat and poultry plants for the in-plant testing. In addition, criteria for evaluating the in-plant testing of model HACCP plans have been drafted and are undergoing scientific peer review. Only after the evaluation of the study is completed will FSIS make a decision on whether to go forward with HACCP.

Food labeling continues to be a great concern to FSIS. Consumers need accurate information to make knowledgeable choices and the industry needs a regulatory system that is responsive to changing consumer demands. This spring FSIS expects to publish an Advanced Notice of a Proposed Rule to seek public input on a variety of nutrition labeling issues for meat and poultry products. The Agency will strive to finalize our nutrition labeling policy by May 1993. Throughout the development of this policy, FSIS will draw on the findings of the recent National Academy of Sciences study on nutrition labeling. In addition, FSIS will work with the Food and Drug Administration to harmonize nutrition labeling requirements and regulations for all foods.

FISCAL YEAR 1991 SUPPLEMENTAL

The funding needs for FSIS continue to remain at a critical level. For 1991, a supplemental of $8.0 million has been requested to maintain mandatory in-plant inspection and to take over the State of Maryland's inspection program as of March 31, 1991. FSIS has taken all responsible steps to contain costs. However, at the current level of funding FSIS will be unable to fulfill its obligation to perform mandatory inspection of a growing meat and poultry production industry.

1992 REQUEST

In 1992, FSIS is proposing a program level of $474.7 million, an increase of $24.5 million over the 1991 current estimate. The total increase of $24.5 million will fund increased pay costs. At this level, FSIS will be able to maintain mandatory inspection.

Legislation will be submitted to require the meat and poultry industry to share 50 percent of inspection costs for daily shifts of inspection provided beyond a single approved shift. Plants that operate beyond their regularly scheduled shift already pay the overtime costs of inspectors. However, plants that operate full second shifts are provided inspectors without reimbursing the Federal government. Smaller plants, which do not have enough production to regularly fill a complete second shift, are required to pay overtime fees when inspectors are needed for a few hours beyond their first eight-hour shift. In effect, larger plants are operating in a permanent overtime status without having to pay FSIS for inspection services. Under our proposal, plants would continue to receive free inspection for one approved shift each day. However, plants would reimburse FSIS for 50 percent of the costs of inspection services provided for full shifts beyond the first approved shift. We estimate that FSIS would collect as much as $50 million if this legislation were enacted.

In addition, legislation will be proposed to allow establishments to voluntarily pay for required inspection when Federal funding is unavailable due to a sequester. Current law does not permit such a procedure even when the industry is willing to fund inspection services. We believe this proposal will help prevent disruptions in the marketing of meat and poultry products, as well as provide consumers assurances that meat and poultry products are safe, wholesome, and unadulterated during a reduction in funding.

AGRICULTURAL MARKETING SERVICE

The programs of AMS enhance the marketing and distribution of agricultural products. For 1992, we are proposing $238.7 million of program activity of which $165.3 million will be funded by user fees. We are requesting $67 million in appropriated funds and $6.4 million for administrative expenses for Section 32.

PROGRAM ACCOMPLISHMENTS AND 1992 BUDGET REQUESTS

In 1991 the Department initiated a multi-agency effort to collect and analyze pesticide use and levels of pesticide residue data in domestically produced fresh fruits and vegetables. As part of this initiative, AMS has begun administering a national pesticide residue monitoring program. Contracts are being entered into with six States to sample and test for pesticide residues in fresh fruits and vegetables within market distribution channels. Those states are California, Florida, Michigan, New York, Texas, and Washington. We have been working with the Food and Drug Administration and the Environmental Protection Agency from the beginning to eliminate duplication of effort.

For 1992, we are requesting an additional $10.0 million for AMS to increase the level of sampling and the number of commodities included under the program. Without an expansion of the program, compilation of a broad range of information for risk assessment and management procedures will be impossible.

The Egg Products Inspection Act provides authority for a mandatory continuous inspection program for processed egg products. All eggs processed for human consumption must be pasteurized, which eliminates Salmonella, including the enteritidis strain. For 1992, we are proposing an $800 thousand increase to enhance continuous inspection of egg products.

The AMS budget for 1992 also includes $3.1 million to implement provisions of the FACT Act. This request includes $1.5 million to implement pesticide recordkeeping requirements, a one-time appropriation of $1.4 million to implement the National Laboratory Accreditation Program, and $173 thousand to evaluate possible alternatives to the Minnesota-Wisconsin price series for milk.

For 1992, we are requesting a one-time appropriation of $1.3 million to recapitalize the dairy grading program. During the latter part of the 1980's, legislative changes reduced the demand for grading services. As a result, the Dairy Grading Program experienced a sudden and severe decline in revenues. In response to the changing demand for services, all but one regional office was closed, staff was reduced by more than half, and fees were increased. Despite these efforts, the program depleted its operating reserve and accumulated a deficit. We are requesting this appropriation so we can continue to provide dairy grading services without placing undue hardship on the dairy industry.

Many marketing activities provide direct benefits to the private sector and are funded through user fees. This source of funding should be expanded in those instances where benefits can be tied directly to particular parties. Therefore, we are proposing legislation to convert $15.6 million appropriated funding to user fees. These activities include AMS costs for the administration of marketing agreements and orders, development of standards and specifications, and the dissemination of tobacco news reports.

As you are aware, Mr. Chairman, the activities of the Office of Transportation (OT) were incorporated into AMS. This action was taken to improve the coordination of transportation and marketing policies of the Department.

We reviewed our marketing service agencies to determine where we could consolidate functions in order to become more efficient. AMS has comprehensive marketing program responsibilities, but the one thing that appeared to be missing in its efforts to assist the movement of products efficiently from the farmer to the consumer was a transportation program. Therefore, it seemed to be a logical approach to merge OT with AMS. We also felt that we could achieve economies of scale by moving into a larger organization of 6,000 employees. We also believed we could achieve synergism by consolidating two very important AMS marketing functions, wholesale market development and payments to states, with the transportation functions. The merger will allow cross utilization of personnel and expertise.

In the past, OT has tended to focus more on future conditions and a bit less on current problems. By merging it with AMS, which is in daily contact with producers and others in the agricultural marketing system, AMS can better serve the process of moving products between producers and consumers. While OT has historically placed heavy emphasis on the grain and feed industry, moving it to AMS will bring its expertise to all producer segments such as fruits and vegetables, livestock and others so that all can benefit from the transportation services USDA provides.

At the requested level of funding, the Agency will be able to maintain the same level of transportation related services and analyses. While OT will no longer be a separate agency, AMS will continue to develop and promote an efficient transportation system. The merger of transportation and market development programs will strengthen the Department's efforts to improve the marketing of agricultural products for the benefit of producers and consumers.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

APHIS is responsible for protecting American agriculture by preventing the introduction of destructive foreign plant and animal pests and diseases; monitoring plant and animal health; conducting programs to prevent, detect, and eradicate harmful pests and diseases; and, developing methods to control detrimental animals and pests. APHIS is also responsible for administering the Animal Welfare Act to ensure the humane care and treatment of warm blooded animals used for research, exhibition, or sold wholesale as pets.

PROGRAM ACCOMPLISHMENTS AND PLANS

In the pest and disease exclusion area, the FACT Act gave APHIS the authority to recover the costs of providing agricultural quarantine inspection, veterinary diagnostics, and import-export services. APHIS published a proposal to collect user fees for most of its agricultural quarantine inspection activities in the Federal Register on February 27, 1991, and plans to begin fee collection for these activities in mid-1991. Fees for the remaining agricultural quarantine inspection activities, and for a portion of APHIS' veterinary diagnostics and import-export activities will be in place by the beginning of 1992.

In February 1990, the Secretary of Agriculture declared a state of emergency due to an outbreak of the Mediterranean Fruit Fly in California. Emergencies were also declared due to an outbreak of the Mediterranean Fruit Fly in Florida and the Mexican Fruit Fly in California. All eradication efforts were successfully completed by November 1990. The total cost of this effort was approximately $80 million, which was shared on a 50/50 basis with California and Florida.

In the area of pest and disease management, APHIS' brucellosis program achieved a major milestone in 1990 when the number of herds under quarantine dropped below 1,000. Substantial improvements in all of the Class B States also occurred. In 1990, APHIS also began a program of reducing the incidence and risk of salmonella enteritidis, a poultry disease with public health consequences. This program has led to a decrease in the number of human outbreaks of salmonella enteritidis through restrictions on eggs and poultry which test positive for the disease.

In the animal care area, APHIS published the final rule to implement the 1985 amendments to the Animal Welfare Act's requirements concerning exercise of dogs and the psychological well-being of non-human primates. These regulations will become effective on March 18, 1991. This rule was the last step in a three-part rulemaking process. Regulations to implement all of the 1985 amendments, except for the exercise of dogs and the psychological well-being of non-human primates became effective on October 30, 1989. Specifications for the humane handling, care, treatment, and transportation of guinea pigs, hamsters, and rabbits became effective on August 15, 1990.

1992 BUDGET REQUEST

We are requesting a program level for APHIS in fiscal year 1992 of $460.5 million, an increase of $12.3 million above the 1991 current estimate. Of this amount, $119.5 million will be funded from user fees and trust funds. The budget includes $16.5 million to cover pay cost increases.

The budget also proposes to increase the agricultural quarantine inspection program by $15 million (including reimbursements) in 1992, for a total program level of $108.3 million, to continue this major defense against the introduction of harmful agricultural pests and diseases into this country.

The 1992 budget proposes $5.0 million to begin a ten year contract for automated data processing procurement and equipment maintenance. APHIS' goal is to replace its current combination of incompatible, antiquated automated data processing equipment with a fully integrated system capable of communicating and exchanging information throughout the agency as well as with other Federal and non-Federal organizations.

The 1992 budget proposes a funding level of $20.4 million for APHIS' animal damage control operations program, a reduction of $4.2 million from the 1991 current estimate. APHIS would reduce current programs involving direct control, and would not expand into new geographic areas or begin new initiatives. APHIS would rely on States and private entities to assume responsibility for activities involving direct control of damage by species in nontraditional segments of the agricultural community.

We are requesting $23.4 million for APHIS' buildings and facilities account in 1992. Of this amount, $2.5 million is proposed to construct outdoor animal holding facilities for the Animal Research Laboratory at the Wildlife Research Center in Colorado; $5.4 million is proposed for maintenance and repair of APHIS-operated facilities; $3.5 million is proposed for APHIS' share of improvements and repairs to the facilities at the Plum Island Animal Disease Center in New York; and, $12 million is proposed to construct greenhouses, an equipment storage building, and a utility substation at the National Germ Plasm Quarantine Center in Beltsville, Maryland.

CONCLUSION

Thank you for this opportunity to present the budget for these Marketing and Inspection Service programs. I believe it proposes funding amounts and sources that will assure the successful accomplishment of the Department of Agriculture's priorities.

STATEMENT OF DR. LESTER M. CRAWFORD

Mr. Chairman, I appreciate having this opportunity to appear before this subcommittee to discuss the budget of the Food Safety and Inspection Service (FSIS) for fiscal year 1992.

The mission of FSIS is to ensure that meat and poultry are safe, wholesome, and accurately labeled. Under the authority of the Federal Meat Inspection Act (FMIA) and the Poultry Products Inspection Act (PPIA), FSIS carries out this mission by inspecting meat and poultry products moving in interstate and foreign commerce.

FSIS is continuing to make advancements in our science-based inspection program. We recognize the importance consumers place on food safety, and we believe

these advancements provide an even greater assurance to consumers here and abroad of the safety and wholesomeness of U.S. meat and poultry.

Before discussing the details of our fiscal year 1992 budget, I would like to give you a brief overview of the activities of FSIS over the past year.

Inspection activities are carried out by a network of five regional offices, 26 area offices, and 188 inspection circuits. As of the end of fiscal year 1990, 6,500 meat and poultry slaughtering and processing plants operated under Federal inspection. This number consists of 373 slaughtering plants, 4,611 processing plants, 1,173 plants that do both slaughtering and processing, and 343 Talmadge-Aiken plants, which State employees perform Federal inspection functions.

During fiscal year 1990, FSIS inspectors examined 124 million red meat animals and approximately 6.3 billion birds. Of the red meat animals inspected in fiscal year 1990, approximately 410,000 carcasses, or 0.3 percent, were condemned. For poultry, 71 million birds were condemned, or 1.1 percent. Carcasses are condemned for disease, contamination, or adulteration during ante-mortem or post-mortem inspection.

FSIS also inspects meat and poultry imported into the U.S. at 218 import inspection establishments located at borders or ports. In 1990, approximately 2.6 billion pounds of imported meat and poultry were passed for entry into the U.S. Approximately 14 million pounds or less than 1 percent of imported product was refused entry to the U.S. due to failure to meet Federal requirements.

Inspectors in the field are supported by laboratory testing for chemical and antibiotic residues, microbiological contamination, processed product composition, and economic adulteration. FSIS operates three multidisciplinary laboratories and two contract laboratories, and accredits 269 private laboratories to carry out these food safety tests. During fiscal year 1990, over 2.2 million analyses were performed on 525,000 samples. Approximately 92,000 samples were taken from processed products, such as hams, sausages, cured meats, and similar items.

FSIS also conducts "rapid tests" in the plant. These tests have the advantage of quick availability of results. These rapid tests include the Sulfa-On-Site (SOS) test, used to detect the presence of unacceptable levels of the antibiotic sulfamethazine; the Swab Test on Premises (STOP), used to detect the presence of various antibiotics; and the Calf Antibiotic Sulfa Test (CAST), used to detect the presence of antibiotics and sulfa drugs in veal calves. In fiscal year 1990, FSIS conducted 112,014 SOS tests, 93,454 STOP tests, and 125,432 CAST analyses.

Enforcement and compliance activities are also a key element of the food safety mission. In fiscal year 1990, approximately 56,000 compliance reviews were conducted. Over 8 million pounds of meat and poultry were detained for noncompliance with meat and poultry laws. Twenty-eight recalls were conducted involving 7 million pounds of product. In addition, 34 convictions were obtained against firms and individuals for violations of the meat and poultry laws.

FISCAL YEAR 1991 BUDGET

FSIS is facing a budget shortfall for the remainder of fiscal year 1991, and a supplemental request of $8.0 million has been submitted to Congress. Several items must be funded that were not provided for in the preparation of our fiscal year 1991 budget request. For example, FSIS must absorb the locality pay adjustment for employees in New York City, San Francisco, and Los Angeles, and a portion of the increase in SES pay and the 4.1 percent increase for all other employees.

Also, we have been notified by the Governor of Maryland that Maryland intends to terminate its State meat and poultry inspection program on March 30, 1991 and turn it over to the Federal Government. As you know, if States choose to operate an inspection program, FSIS pays 50 percent of the costs of its program. Maryland has 50 meat and poultry plants, 27 custom exempt plants, and 24 Talmadge-Aiken plants for which FSIS must now assume inspection duties. In fiscal year 1990, FSIS provided Maryland with approximately $934,000 for its program, which is 50 percent of its costs.

Other States facing similar budget shortfalls may also exercise their option to turn their inspection programs over to the Federal Government. As of the end of fiscal year 1990, 28 States operated their own meat inspection programs and 24 operated their own poultry inspection programs. The total cost of the 50 percent funding provided to these States for fiscal year 1990 was $37.6 million.

FISCAL YEAR 1992 BUDGET

For fiscal year 1992, FSIS is requesting a total of $473.5 million. This total consists of $281.5 million for slaughter inspection; $117.7 million for processing inspection; $12 million for import-export inspection; $23.7 million for laboratory services; and $38.5 million for the Grants to States program.

EXPLANATION OF PROPOSED INCREASE

The amount requested is an increase of $24.6 million over the current fiscal year 1991 estimate, which is needed to fund pay increases. An additional 27 staff years are requested to annualize positions required by the Maryland designation. This is an increase to the approximately 7,100 current inplant inspection staff years.

Our fiscal year 1992 budget also includes a proposal for new legislation authorizing a cost-sharing program that will provide us with as much as $50 million of the $473.5 million we have requested. Currently, FSIS provides inspectors free of charge to plants that regularly operate second shifts. Smaller plants, which do not have enough production to regularly fill a complete second shift, are required to pay overtime fees to FSIS when inspectors are needed for a few hours beyond their first eight-hour shift. In effect, the larger plants that operate second shifts are in permanent overtime status, yet they do not have to pay for additional inspection services, while smaller plants owned by small businessmen and women are required to pay fees for overtime.

In an attempt to even out this discrepancy, FSIS is proposing that plants that operate second shifts share costs with FSIS for inspection during those shifts. All meat and poultry plants—large and small—will continue to receive free inspection for one eight-hour shift each day. However, inspection services provided beyond that eight-hour period would require reimbursement. For plants regularly operating second shifts, we are proposing that 50 percent of the costs of inspectors for these shifts be reimbursed by the plant. Plants that do not run full second shifts would still be required to pay overtime when inspectors are needed beyond the initial eight-hour period.

We believe this cost-sharing proposal will help put inspections services provided for large and small plants on a more equal footing, as well as ensure adequate inspection funding for the growing meat and poultry industry. Legislation to implement this proposal will be forthcoming.

Another part of the proposal we will make is in response to many requests we received last year from Congressional offices as well as directly from industry. This proposal will allow meat and poultry establishments to voluntarily pay for inspection services when Federal funding is unavailable due to a sequester. Current law does not permit such reimbursements, even when meat and poultry plants are willing to do so. We believe this proposal will help prevent disruptions in the marketing of meat and poultry products, as well as provide assurances to consumers that meat and poultry products continue to be safe, wholesome and accurately labeled even in times of technical funding shortages.

AREAS OF EMPHASIS

The FSIS initiatives that are receiving the greatest emphasis are similar to those last year: the Hazard Analysis and Critical Control Points (HACCP) system, food labeling reform, microbiological control, public information and consumer education, work force diversity, science-based international food regulation, and residue control.

Operating within each of these areas of emphasis is our philosophy of Total Quality Management or TQM. TQM involves a commitment from management and employees to initiate a totally participative, flexible organization where all employees are empowered to give and accept responsibility for meeting and attaining the goals and mission of FSIS.

TQM acknowledges a fact we already knew—that each of our employees has a great deal of knowledge, expertise, and initiative to contribute—and gives those employees more opportunities to make those contributions. After all, our employees are the ones who carry out the policies and procedures of FSIS, whether it be HACCP, food labeling or any other area. We are beginning to implement TQM agency wide, and it will be the key to ensuring FSIS continues to make effective, quality improvements in all areas of our meat and poultry inspection program.

HAZARD ANALYSIS AND CRITICAL CONTROL POINTS SYSTEM

A primary area of emphasis continues to be the Hazard Analysis and Critical Control Point system, also known as HACCP. HACCP will be the foundation of inspection in the future because it is designed to prevent food hazards before they occur rather than detect problems after they occur. It uses scientific data to identify potential food hazards and appropriate control measures, and puts a system into place to monitor, document and prevent those hazards.

HACCP increases industry's accountability in controlling the food production process and preventing food safety hazards. It does not turn over the inspection job to

industry. HACCP focuses FSIS inspection on the critical areas of food safety. It does not replace inspector presence with record-checking.

FSIS is in the middle of a HACCP study begun in 1990. The study involves four phases: (1) consultations and public hearings to explain and solicit recommendations regarding HACCP and the Agency's study by the Agency's work force, employee organizations, the industry, and public interest groups; (2) cooperative industry/Agency workshops to develop model HACCP plans; (3) in-plant testing to test the model HACCP plans; and (4) evaluation of the study and HACCP plans.

We have finished the first phase involving the consultations and public hearings, although further consultations, meetings, and information sharing activities will continue to be held as more information becomes available. As of today, we have held more than 100 meetings and met with more than 3,000 individuals. Five public hearings were held in Dallas, Philadelphia, Atlanta, Sacramento, and Evanston, Illinois. Represented at these hearings were: public interest groups, the scientific community, industry, and the general public. We also published a notice in the Federal Register requesting comments from individuals who were either unable to attend the public hearings or other meetings, or who wanted to make additional recommendations. Recommendations were incorporated into the current study's strategy.

FSIS began the second phase of the HACCP study in late February by holding a workshop to facilitate industry development of a model HACCP plan for products they produce. The subject of this first workshop, which was held in Baltimore, was refrigerated foods. Four additional workshops are scheduled between now and March 1992. Those workshops will cover the following products: cooked sausage, poultry (young chickens) slaughter, fresh ground beef, and swine (market hogs) slaughter.

A Federal Register notice was published in January seeking volunteer meat and poultry plants to test the model HACCP plans developed in the workshops. This is the third phase of the HACCP Study. We intend to test the models in plants of varying size and complexity. We also will train inspection and industry personnel in the volunteer plants on HACCP.

For the fourth phase—the evaluation of the study and the model HACCP plans—draft evaluation criteria for the HACCP study have been developed and are undergoing scientific peer review. An evaluation team will collect data and evaluate the implementation of HACCP to ensure that our approach to HACCP-based inspections is effective, reduces food safety risks, and protects public health. Only after the evaluation is completed will FSIS make a decision on whether to go forward with HACCP, and if so, how to do so.

FOOD LABELING

Food labeling is another area FSIS continues to emphasize. FSIS is unique among other government food agencies in that we require all meat and poultry labels to be approved prior to their use. During fiscal year 1990, FSIS reviewed almost 185,000 labels to ensure truthfulness and accuracy.

To handle this workload, FSIS has prepared a coordinated, long-range plan that will overhaul and modernize procedures for our meat and poultry label approval process. To implement the plan, we have begun identifying how current procedures must change, how to implement change without disrupting current operations, and estimates of resource requirements. This redesign effort will be a major, complex initiative that will involve implementation in stages over the next three to five years.

On another front, FSIS is committed to modernizing food labeling requirements to meet the needs of a changing society. Recently, USDA and the U.S. Department of Health and Human Services cosponsored a study from the National Academy of Sciences (NAS) on how best to improve food labeling.

In September 1990, the HAS released the results of that study with recommendations on ways to harmonize and modernize the nutrition, diet, and health-related information on labeling of food products. We responded to the NAS study in February. FSIS plans to develop a comprehensive policy on mandatory nutrition labeling for processed meat and poultry products later this year.

Nutrition labeling is intended to provide consumers with information they can use to make choices among and between foods based on nutritional value. For many years, FSIS has encouraged industry to voluntarily list nutrition information on labels of meat and poultry products. Since 1973, FSIS has required nutrition information on labels when nutrition-related claims are made, such as that the product is low in fat or low in salt.

FSIS believes greater consistency in Federal food labeling requirements is essential, and is working with the Food and Drug Administration (FDA)—the regulator

of all foods other than meat and poultry—to harmonize nutrition labeling requirements and regulations. We believe consumers should be able to understand and compare food labels for all foods.

There are seven major issues associated with nutrition labeling that will be covered in an advanced notice of proposed rulemaking FSIS expects to issue later this month. Those issues include: (1) mandatory nutrition labeling for processed meat and poultry products, (2) nutritional label content, (3) U.S. Recommended Daily Allowances, (4) serving sizes, (5) descriptors and health messages, (6) food ingredients and identity standards, and (7) compliance and analytical methods.

FDA is in the process of developing nutrition labeling regulations that reflect the National Labeling and Education Act of 1990 (Public Law 101–535). FDA regulations are expected to be finalized by May 1993. We believe it would be beneficial to consumers and to industry to follow the same timetable as FDA for implementation of nutrition labeling for meat and poultry. Therefore, we will strive to finalize our nutrition labeling rule by May 1993.

Congress has also expressed an interest in organic labeling. In the Food, Agricultural, Conservation and Trade Act of 1990 (FACT) passed last year, a section was included requiring the development of an organic labeling program for foods, including meat and poultry. Currently, only about 2 percent of all food products are produced organically. We have not allowed the use of an organic label for meat and poultry, mainly due to the lack of any commonly accepted or understood definition of the term.

As you know, inspection for meat and poultry is comprehensive and mandatory. That is not the case for any other food. In addition to organoleptic inspection, FSIS continually tests meat and poultry products for chemical, pesticide, and antibiotic residues, microbiological contamination, and many other contaminants. The overall residue violation rate has consistently been below 1 percent for many years. Meat and poultry inspection is done solely for food safety and other compliance reasons—not marketing.

The organic label will be a marketing tool. It will not mean the meat or poultry product is any safer for consumers. It will not mean the meat or poultry product has gone through a different method of inspection than all other meat and poultry. It will simply mean an animal has been raised and fed in a certain way.

What constitutes an organic method of raising and feeding food animals is a question that needs to be answered in the context of what consumers expect when a meat or poultry product is labeled "organic."

We are very concerned that consumers will be confused by an organic label and will think a meat or poultry product with an organic label does, in fact, mean it is safer or that it has been through a "better" system of inspection. Of even more concern is the effect an organic label will have on meat and poultry that does not carry an organic label. Will consumers think these products are less safe? The potential for harm to the current nonorganic meat and poultry industry is tremendous.

FSIS plans to resolve some of these issues by holding a series of public, information-gathering hearings in the near future.

MICROBIOLOGICAL CONTROL

Microbiological control is another continuing area of emphasis for FSIS. The greatest food safety threat for meat and poultry comes not from pesticides, but from microbiological contaminants.

The National Advisory Committee on Microbiological Criteria for Foods, which began meeting in 1988, has been extremely helpful to this Agency in making recommendations for the development of procedures to detect, control, and/or prevent the presence of harmful microorganisms.

The committee has embraced HACCP as the inspection system of the future, and HACCP elements are being included in all of its recommendations. Currently, the committee is working on recommendations for microbiological controls for slaughter operations and Listeria control. Reports from the committee on microbiological criteria for the new generation of refrigerated, ready-to-eat meat and poultry products and cooked, ready-to-eat shrimp and crab meat have already been forwarded to FSIS, and we are in the process of reviewing the recommendations.

Two of the more common microbiological contaminants associated with meat and poultry are salmonella and Listeria. Although the illnesses these contaminants can cause can be prevented to a certain extent by proper cooking, FSIS is examining methods to control their presence before the products reach the consumer.

FSIS has asked the Agricultural Research Service to expand its research into salmonella. In March 1990, FSIS started a two-year nationwide survey for salmonella in raw chicken, turkey, pork and beef. In May 1990, FSIS began a two-year survey

to measure the occurrence of salmonella on whole broiler carcasses after chilling. The data, which will be compared to a similar survey conducted from 1982–1984, will be used to develop a benchmark for the number of salmonellae present on carcasses that test positive. In December 1990, FSIS began studies in Puerto Rico on the effectiveness of feeding chicks harmless bacteria that will compete with and inhibit the salmonella bacteria in the birds.

For Listeria, FSIS has supported research on several fronts. As I mentioned, there is a working group under the National Advisory Committee for Microbiological Criteria for Foods that is dealing specifically with the problems associated with Listeria. In addition to the report we have already received from the committee on refrigerated, ready-to-eat meat and poultry products, we are looking forward to the report from the Listeria Working Group. Listeria has characteristics that make it difficult to control, including its ability to slowly grow in refrigerated foods. We also received very helpful data and comments from the HACCP workshop that was held in February on refrigerated foods.

Since 1987, FSIS has been monitoring and sampling several raw and cooked meat and poultry products for Listeria, such as roast beef, sliced hams, and meat and poultry salads and spreads. In May 1989, FSIS revised its policy for Listeria testing and control of ready-to-eat meat and poultry products. The new policy for an increase in the number of samples analyzed for Listeria and in the size of the sample drawn for laboratory testing. End-of-shelf-life testing of retail-size packages was begun. In addition, stricter recall procedures have been implemented when Listeria is found. All of these changes have led to increased industry awareness of the problem and industry-sponsored education programs on Listeria control.

FSIS issued an advance notice of proposed rulemaking in May 1990 concerning the issuance of regulations governing ready-to-eat, uncured perishable meat and poultry products. We are in the process of reviewing the comments we received from the notice, as well as the data from the Micro Committee, the HACCP workshop, and our monitoring and sampling program.

PUBLIC INFORMATION AND CONSUMER EDUCATION

Since many foodborne illnesses can be prevented by proper food handling, FSIS continues to place great emphasis on its public information and consumer education programs. USDA started its food safety education program in 1973. Today, the FSIS program uses booklets, a quarterly magazine, background papers, fact sheets, feature stories, educational videos, video news releases and radio features to reach consumers and the food service industry.

FSIS is broadening the scope of its materials to emphasize the scientific basis for our food safety programs and policies, such as HACCP. In December, FSIS released "A Quick Consumer Guide to Safe Food Handling," which is based on an FSIS study that used HACCP principles to identify consumers riskiest food handling habits. Also in December, FSIS issued a booklet describing our chemical residue testing program. "Food News for Consumers," an FSIS quarterly magazine sent to numerous food, health, and science writers, officials, and specialists, has devoted its latest issues to the science of food safety.

Last April, FSIS began a multimedia food safety education effort targeted to consumers at higher risk from foodborne illness—the elderly, pregnant women, infants and the chronically ill. "The Danger Zone," a training video prepared by FSIS, was recently released to educate junior high and middle school students about food safety.

Another important tool in reaching consumers is our Meat and Poultry Hotline. The Hotline began in 1979 and became toll free nationwide in July 1985. Technical information specialists answer calls from consumers and others with information about food safety. In fiscal year 1990, approximately 80,000 calls were made to the Hotline. Although Thanksgiving turkey questions continue to result in the most calls to the Hotline, this year we have also received many calls from consumers wanting to send safe food packages to the men and women serving in the Persian Gulf.

FSIS information and education operations also play an integral role in employee communications. Every employee receives "The Communicator," which is a newsletter issued semi-monthly with the latest information on FSIS employees and issues. Field supervisors, including inspectors in charge, also receive "Supervisory Notes," a biweekly memo that updates them on activities in meat and poultry inspection. Special mailings have frequently been made to solicit employee comments and suggestions on FSIS initiatives such as HACCP, or to inform employees of activities that may affect their jobs or benefits.

WORK FORCE DIVERSITY

Work force diversity is an area of great emphasis for all of USDA, although it has been a priority for FSIS for several years. In May 1990, the Secretary announced a comprehensive plan for building a diverse work force at USDA and ensuring fairness in the delivery of USDA programs. The six objectives for the plan are outlined in "Framework for Change: Work Force Diversity and Delivery of Programs."

FSIS is committed to achieving work force diversity at all grade levels and to ensuring the delivery of services in an effective and fair manner. We've made a great deal of progress in this area within FSIS.

Two years ago, FSIS implemented a new hiring procedure that gives part-time food inspectors credit for intermittent work experience, thereby improving their opportunities for obtaining permanent, full-time positions. This has resulted in the hiring of 422 employees, 50 percent of whom are women and 15 percent of whom are minorities.

FSIS is also using the Upward Mobility Program to fill import inspector and compliance officer positions. This program expanded the applicant pool for these positions to employees in clerical and administrative support positions, who would otherwise have a limited career ladder. Additionally, development programs are being used to enhance advancement opportunities for employees in grades 5 through 15.

EEO training is being focused on the preventing of sexual harassment and the management of a diverse work force. More than 2,000 managers, supervisors and employees have participated in these two courses. As a result, EEO problems are solved more easily and with greater sensitivity.

Thirteen civil rights compliance reviews have been conducted of State inspection programs that receive 50 percent funding from FSIS. These reviews and other activities have increased the awareness of State officials of their civil rights responsibilities.

FSIS plans to hire an equal employment specialist for each of our five regional offices. This resource commitment will be beneficial to field managers in planning program activities and in evaluating results. In addition, every employee in FSIS will have an EEO element added to their performance standards to ensure that they are accountable for the performance of their duties in a nondiscriminatory manner.

We believe these steps are a good beginning to achieving and maintaining a diverse work force and assuring that services are provided effectively and fairly.

SCIENCE-BASED INTERNATIONAL FOOD REGULATION

Science-based international food regulation is an important area of emphasis that affects us domestically as well as internationally. No country does business in isolation. When countries have arbitrary differences in food safety regulations, it can cause serious trade problems.

At FSIS, we believe that science is the only logical and fair basis for international food regulation. FSIS objectives for science-based international food safety regulation are to reduce trade barriers by supporting science-based resolution of food safety disputes and to encourage international food standard-setting organizations to adopt the HACCP model as the framework for international food safety systems.

One important vehicle for these changes is the Codex Alimentarius Commission, sponsored by the Food and Agriculture Organization and the World Health Organization of the United Nations. I am very privileged to work with colleagues from 138 countries as the U.S. Coordinator for Codex Activities.

Codex determines priorities for food standards, and initiates and finalizes those standards. In this forum, the world's leading experts come together to discuss, debate, and reach scientific consensus on the major food safety issues of the day. Codex is involved with standard setting for all principal foods, whether raw, semi-processed or processed.

Two of Codex's more active committees are chaired by the United States—Residues of Veterinary Drugs in Foods and Food Hygiene. The Codex Committee on Residues of Veterinary Drugs in Foods was established in 1985. During its brief existence, this committee has made a significant, positive impact on efforts to harmonize animal drug residue standards throughout the world.

The Codex Committee on Food Hygiene is responsible for drafting provisions on food hygiene applicable to all food. In addition to its current program of work, the committee is reviewing a paper introduced by the United States outlining the principles of HACCP. The committee is in the press of drafting general definitions and procedures for applying the scientifically based HACCP system to sanitation guidelines for food processing.

Also over the last year, the United States has experienced some problems at the international level. The European Economic Community (EEC) has banned the im-

port of all beef and pork from the United States. The ban went into effect October 31 for pork and December 31 for beef. The EEC claims—incorrectly, we believe—that U.S. plants and USDA inspection procedures do not meet EEC standards.

Late last year, U.S. meat industry groups filed a Section 301 petition with the U.S. Trade Representative (USTR) concerning the EEC's actions. Although the USTR has accepted the petition, in mid-January, USTR expressed hope that the dispute could be resolved without formal action on the 301 petition. Therefore, the USTR said it would delay for 90 days any formal request to the General Agreement on Tariffs and Trade for review of EEC actions. We share USTR's hope that this dispute can be resolved amicably.

RESIDUE CONTROL

Residue control has been an area of emphasis for FSIS for many years. However, as more scientific information and testing methods have become available, residues have become less of a problem in meat and poultry. As I mentioned earlier, our overall residue violation rate has been less than 1 percent for several years. Nevertheless, our goal remains 0 percent violations.

There are three objectives for our residue control program. They are: (1) to use risk management principles such as HACCP to identify and prioritize residue testing; (2) continue our commitment to employ up-to-date scientific technologies, such as rapid tests; and (3) continue to encourage industry participation in order to prevent hazardous residues from occurring throughout the animal production process.

Sulfamethazine violations continue to be our biggest residue violation problem. However, we have made tremendous progress in that area. Intensive FSIS testing begun in 1988 has reduced the nationwide sulfamethazine violation rate in hogs (the animal for which it is most commonly used) from 3.6 percent in 1987 to 1.1 percent in 1989.

We anticipate a further drop in the sulfamethazine violation rate when FDA goes forward with its proposed ban on sulfamethazine.

Additionally, FSIS has developed a speedier test for drug residues that could one day replace STOP and CAST. The new test is called "Fast Antibiotic Screen Test" or FAST. Field trials are planned to begin in this fiscal year to compare the new test with the old ones. FAST can detect both antibiotics and sulfonamide drug residues, and provides results within a very few hours.

SUMMARY

Although we are proud of our record at FSIS, we always intend to do better. We recognize that consumer confidence rests on our ability to continue making improvements in all areas of our inspection program so that meat and poultry products remain safe, wholesome, and accurately labeled.

Mr. Chairman, this concludes my statement. Thank you again for this opportunity to discuss the budget needs and priorities of FSIS. I will be glad to answer any questions you or other members of the subcommittee may have.

STATEMENT OF DANIEL D. HALEY

Mr. Chairman and Members of the Committee, I appreciate the opportunity to appear before you today to present our fiscal year 1992 budget request. Accompanying me are Kenneth C. Clayton, Deputy Administrator for Marketing Programs; Linda P. Massaro, Deputy Administrator for Management; and Norma R. McDill, Deputy Director of the Financial Management Division.

I would like to start by briefly describing the evolving role of AMS in assisting American agricultural producers in their efforts to provide quality, healthful food in abundant quantity to the consumer.

AGRICULTURAL MARKETING SERVICE MISSION

The fundamental mission of Agricultural Marketing Service (AMS) is to facilitate efficient, dependable, and equitable marketing of agricultural products. AMS carries out a wide array of programs to accomplish this mission. The Agency coordinates its efforts with producers, representatives from the State Departments of Agriculture and various industry groups.

Because the marketing system is an essential bridge between the producer and the consumer, we propose to expand our responsibilities in response to public concerns about the use of pesticides in food production. This year. we began a pesticide data program to collect randomly sampled and statistically based information con-

cerning residue levels in fresh produce as part of a multi-agency initiative. In 1992, we are requesting funds to broaden our pesticide data collection activities to additional commodities, pesticides, and States. In addition, we are proposing a program which will certify independent laboratories for pesticide residue testing. The comprehensive information provided by these programs is designed to increase consumer confidence in the food supply and thereby assist agricultural producers in marketing their products.

Mr. Chairman, before presenting our fiscal year 1992 budget proposal, I would like to highlight our progress in the area of food safety and discuss the recent reorganization which transferred transportation activities to AMS. Due to your familiarity with AMS, I will not describe all of our programs at this time.

PESTICIDE DATA PROGRAM

I would first like to report our recent progress in the pesticide data program, formerly called the food safety data initiative, which is a key component in the President's comprehensive food safety plan.

For fiscal year 1991, AMS proposed, and Congress funded, a program to collect pesticide residue data for the purpose of estimating actual dietary levels of exposure to pesticides. In preparation for program commencement, we developed a work plan and met with EPA and FDA officials to assure that our activities are complementary to theirs without being duplicative. Six States were chosen for program participation in the first year. The cooperating States are California, Florida, Michigan, New York, Texas, and Washington. Each of the States' residue monitoring programs was evaluated, and a list of 105 commodity and pesticide pairs were developed for consideration.

Since the beginning of this fiscal year, we have completed the organizational and administrative aspects of implementing the pesticide data program. The initial list of commodity and pesticide pairs to be monitored was finalized in October. By December, we had defined the sample quantities and interim sampling methods, and determined personnel and equipment needs for AMS management activities. One of our most significant accomplishments thus far is that we have commenced design and implementation of the laboratory quality assurance program in the six participating States. This program is vital to the mission of the pesticide data program because it establishes a uniform methodology of testing for pesticide residue analysis. Once each of these States have consistent and uniform testing techniques that yield compatible analyses, we will be able to collect the results from a larger statistical base to obtain a better insight into the occurrence of pesticide residues in fresh produce. To compliment the laboratory quality assurance program we have developed interim sampling procedures to obtain objective, comprehensive data on the concentrations of pesticide residues in certain fresh fruits and vegetables. We are now in the process of collecting our first samples.

During the remainder of the year, we will complete staffing for the AMS program management unit and laboratories, and compile and analyze the first set of monitoring results reported by the States. These results will then be provided to the other agencies involved—Environmental Protection Agency, Food and Drug Administration, Economic Research Service, Human Nutrition Information Service, and National Agricultural Statistics Service. We will also design an automated residue information system, including data quality control provisions and data reporting procedures. Also during 1991 we will identify the additional States, commodities, and pesticides to be included in the data program for fiscal year 1992.

The data gathered through this cooperative Federal-State effort will be provided to the Environmental Protection Agency for use in setting pesticide tolerance levels and to other Federal and State agencies for use in determining policies intended to safeguard the public health.

TRANSPORTATION SERVICES

As you are aware, Mr. Chairman, AMS was recently made responsible for the Department's agricultural transportation programs. These responsibilities involve the formulation of agricultural transportation policy and efforts devoted toward ensuring an efficient transportation system that improves farm income, expands exports, and meets the needs of rural America. We believe that transportation objectives are closely compatible with AMS' objectives. Therefore, the integration of agricultural transportation activities into AMS will ensure the formation of compatible policies which enable producers to more effectively market and expedite the transportation of their commodities through the channels of distribution and, ultimately, to the consumer.

We recognize the importance of transportation programs to American agriculture. For example, in 1990 the transportation staff intervened in rail abandonment cases on behalf of farmers; published information concerning the impact of the Shipping Act of 1984 on agricultural exports; and published an analysis of the future needs and availability of railcars used for grain shipment by growers and shippers which was submitted as evidence at Interstate Commerce Commission regulatory proceedings. To further international trade, the program provided assistance to bee exporters, obtained clarification on European Community directives which could establish barriers to U.S. exports of livestock, and met with representatives of the Mexican government to facilitate cross-border movement of agricultural shipments. The program also provided technical assistance on food distribution problems in the Soviet Union and Poland.

While the Office of Transportation will no longer be a separate agency within the Department, its activities will be fully supported by AMS and will continue unimpeded to develop and promote an efficient transportation system. The merger of transportation responsibilities into AMS will also allow some realignment of existing agency activities, thus strengthening the Department's efforts in the marketing area.

BUDGET PROPOSAL

I would now like to outline AMS' budget proposal under current law for fiscal year 1992. As you will notice, the requirements of the Food, Agriculture, Conservation, and Trade Act of 1990 have been considered and are reflected in our proposals.

We are requesting appropriated funding in four separate accounts: Marketing Services, Payments to States, Section 32 Administrative Expenses, and Trust Funds.

For Marketing Services, our fiscal year 1992 budget request is $68.3 million, an increase of $18 million above our fiscal year 1991 budget. The request includes increased funding for the pesticide data and egg products inspection programs, plus funding to develop a new pesticide recordkeeping program.

For Payments to States we are requesting $980 thousand, a decrease of $270 thousand from the fiscal year 1991 level.

Our Section 32 administrative request is $16.5 million. The $2.6 million increase over the fiscal year 1991 request will allow us to improve oversight of marketing agreements and orders and to consider potential alternatives to the Minnesota-Wisconsin price series.

In addition to individual program increases, the above proposals include funding for administrative expenses so that we can continue to provide the current level of services in our appropriated activities. Administrative cost increases include pay, inflation, and costs related to conversion to the FTS 2000 system.

Lastly, we are requesting a one-time appropriation of $2.6 million to Trust Funds. These funds will be used to capitalize a new national laboratory accreditation program and to recapitalize the dairy grading program.

Our budget request does not propose the elimination of any programs.

EXPLANATION OF INCREASES

I would now like to explain, in more detail, the need for increased funding, and the benefits that will result from these additional funds.

MARKETING SERVICES

PESTICIDE DATA PROGRAM

We are requesting an increase of $10 million in fiscal year 1992 to expand the scope of our pesticide data program. This program is being developed on a planned, multi-year expansion schedule. The fiscal year 1991 funding level allows the collection of data for a limited number of pesticides and commodities produced in certain States. While this information is useful in specific areas, a broader base of information is required to determine the validity of food safety concerns involving a wider range of commodities and pesticides and a greater number of States. Without funding for program expansion, it will be impossible to compile the broad-range comprehensive information needed to improve risk assessment and management procedures. Ultimately, the data collected will help prevent pesticide issues from disrupting national and international trade.

EGG PRODUCTS INSPECTION

For our egg products inspection program we propose an $800 thousand increase. Additional funding is needed for the egg products inspection program to continue to effectively perform its duties and responsibilities in protecting consumers. This program provides consumer protection by ensuring that shell eggs and egg products are wholesome, unadulterated and truthfully labeled through its egg products inspection and shell egg surveillance activities. The egg industry is becoming larger and more complex as it adapts to the changing needs of the consumer. There has been a steady increase in the volume of egg products produced during the past few years, and this trend is expected to continue. Consequently, the workload for egg products inspection has increased and additional inspectors are needed to cover this increased workload. Also, supervision of the shell egg surveillance program is being intensified to ensure that cooperating states are properly complying with the requirements of the Egg Products Inspection Act.

Increased supervision of the shell egg surveillance program and the hiring of additional inspectors to cover the increase in workload will assure that egg products reaching consumers remain wholesome and of the highest quality.

PESTICIDE RECORDKEEPING

The Food, Agriculture, Conservation, and Trade Act of 1990 requires recordkeeping by certified applicators of restricted-use pesticides for agricultural production. Currently, no recordkeeping requirements exist at the Federal level for private users of pesticides in agricultural production. Therefore, we are requesting $1.5 million to develop and issue regulations for the maintenance and availability of restricted pesticide use data. These data will provide records of what pesticides were applied, the amount, the time of application, and the location. The records will be available to be surveyed by the National Agricultural Statistics Service for an annual comprehensive report of restricted pesticide use. An annual report would facilitate environmental and agronomic statistical analysis by State and Federal agencies. The records could also be used by health professionals, if necessary, in providing medical treatment.

SECTION 32

MARKETING AGREEMENTS AND ORDERS

We are requesting an increased appropriation of $956 thousand to improve Federal oversight of marketing agreements and orders. Farmers utilize marketing orders and agreements to cooperatively improve the marketing of their products by establishing uniform criteria such as minimum standards and common container markings, and by pooling resources for product promotion. Marketing order programs become increasingly popular with farmers as competition for market share escalates. As industry dependence on marketing orders grows, AMS' workload increases. In fiscal year 1992, we expect our activities to increase by 10 to 20 percent, while overseeing marketing orders that cover nearly $20 billion of farm products. Industry officials have already expressed concern over AMS' ability to perform the rulemaking tasks needed to adjust orders to market conditions in a timely manner, and to respond to compliance problems so that all parties subject to a marketing order are equally treated. Therefore, we request increased funding to strengthen program oversight and shorten rulemaking timeframes.

MINNESOTA-WISCONSIN (M–W) PRICE SERIES REFORM

Also associated with marketing orders, we are requesting an appropriation of $173 thousand to gather and evaluate data for an alternative to the Minnesota-Wisconsin (M–W) price series. The Food, Agriculture, Conservation, and Trade Act of 1990 requires the Secretary to consider alternative pricing formulas to replace the M–W price series used to determine the minimum price paid under milk marketing orders. AMS will gather data for an alternative price series and evaluate that series against the M–W price series.

APPROPRIATION TO TRUST FUND

NATIONAL LABORATORY ACCREDITATION PROGRAM

We are asking for a one-time appropriation of $1.375 million to establish a national laboratory accreditation program. This program is authorized in the 1990 Farm Bill and is designed to protect human health by ensuring that laboratories which

make claims to the public concerning pesticide residue levels meet minimum quality and reliability standards. Without an accreditation program, we cannot verify or deny findings of these laboratories concerning chemical residues on agricultural products. Since AMS does not currently have sufficient laboratory capacity needed to provide certification services to independent laboratories, the appropriation will be used to augment existing pesticide analytical capacity. The on-going costs for voluntary accreditation services will be funded through user fees assessed to participating laboratories.

DAIRY GRADING RECAPITALIZATION

Finally, we are requesting $1.25 million to recapitalize the dairy grading program. Dairy grading services provide verification of product quality between parties buying and selling dairy products such as butter, cheese, and dry milk. Historically, this program has been fully fee-supported by the dairy industry and government programs. However, changes in the dairy price support program during the 1980's caused a dramatic decrease in the amount of dairy products requiring grading. As a result, the dairy grading program experienced a sudden decline in demand for services. To reduce costs, AMS made drastic cuts in program personnel and other expenses. Despite these reductions and significant fee increases, AMS could not prevent the program from depleting its operating reserve and accumulating a funding deficit. We are requesting this appropriation to eliminate the losses remaining from past years so that we can continue to provide dairy grading services without placing undue hardship on the dairy industry.

FISCAL YEAR 1992 LEGISLATIVE PROPOSALS

Our requested increases can be partially offset by legislative proposals that would convert certain appropriated programs to user fee funding. It is reasonable to require that the industries served directly by these services reimburse AMS for costs associated with the services. Those who directly benefit from these services are easily identifiable and could readily be assessed fees.

Once user fee legislation is enacted, our appropriated needs would be reduced by a net of $4.9 million in the Marketing Services account and by a net of $10 million in the Section 32 Administrative fund.

We propose to recover $10 thousand in postage, printing, and handling costs for tobacco printed market news reports from report subscribers. These are the last remaining printed market news reports which AMS provides free of charge. The cost for developing, reviewing, and modifying commodity standards, a total of $4.3 million, would be incorporated into existing grading fees. Federal marketing order administrative costs of $10.4 million, as well as the $933 thousand for associated market analysis currently performed in the market development and assistance program, would be added to the current industry marketing order assessment. Savings have been reduced by our request for one-time conversion costs of $380 thousand in Marketing Services and $318 thousand in Section 32. Conversion funds are needed to finance liabilities such as annual leave and workers' compensation that accrued while the programs were appropriation supported.

This concludes my statement, Mr. Chairman. At this time, I would be pleased to answer any questions regarding our program activities or proposed budget.

STATEMENT OF DR. JAMES W. GLOSSER

Mr. Chairman and members of the Committee, I appreciate the opportunity to present our fiscal year 1992 budget request and to report to you on our continuing efforts to protect American agriculture. I would like to take some time now to report briefly on our Agency mission and related accomplishments, major issues, and future direction.

First, let me introduce some key members of our management team. With me are Mr. Robert B. Melland, the Associate Administrator; Deputy Administrators, Dr. Lonnie J. King for Veterinary Services; Mr. Bobby R. Acord for Animal Damage Control; Dr. Joan M. Arnoldi for Regulatory Enforcement and Animal Care; Dr. Al Strating for Science and Technolcgy; Mr. Richard R. Backus, Associate Deputy Administrator for Plant Protection and Quarantine; and Michael C. Gregoire, Director of the Budget and Accounting Division.

AGENCY MISSION AND RELATED ACCOMPLISHMENTS

The mission of the Animal and Plant Health Inspection Service (APHIS) is to protect American agriculture by providing leadership in ensuring the health and care of animals and plants, to improve agricultural productivity and competitiveness—to keep it safe, make it better, cheaper, more efficient, and thus, more economically sound and successful, thereby contributing to our Nation's economy and the public health.

PEST AND DISEASE EXCLUSION

To prevent the introduction of foreign plant and animal pests and diseases that are harmful to our country's agriculture, APHIS carries out inspection and quarantine activities at U.S. ports-of-entry. To ensure that foreign agricultural products destined for the United States do not present a risk to U.S. agriculture, APHIS develops and conducts preclearance programs. Further, APHIS engages in cooperative programs with other countries to control pests of imminent concern to the United States and to strengthen foreign animal and plant protection and quarantine organizations. APHIS certifies plants and plant products for export and regulates imports and exports of designated endangered plant species. APHIS facilitates exports by issuing certification that U.S. exports comply with foreign animal and plant health regulations and by negotiating changes in regulations that are not biologically based. Also, APHIS participated in General Agreement on Trade and Tariff negotiations to expand the export market for U.S. agricultural products and to safeguard American agriculture from pests and diseases.

USER FEES

Much of our pest and disease exclusion effort will now be financed by user fees. The Food, Agriculture, Conservation, and Trade Act of 1990 as amended by the Omnibus Budget Reconciliation Act of 1990, authorized APHIS to set and collect user fees for providing services connected with agricultural quarantine inspection, veterinary diagnostics, and import-export activities. APHIS will begin collecting fees for most agricultural quarantine inspection activities in mid-1991. The remaining user fees will be in place by the beginning of fiscal year 1992.

SCREWWORM

The screwworm eradication program continues to advance through Mexico, Guatemala, and Belize. Just 14 years after the start of sterile fly production in Tuxtla-Gutierrez, Mexico was declared screwworm free in fiscal year 1990. With eradication completed in Mexico and continued progress in Central America, with intent of establishing a permanent barrier in Panama, the screwworm program is ensuring this pest is not reintroduced into the United States.

FRUIT FLY EXCLUSION

Sometimes, despite our best efforts to keep them out, exotic pests do enter the United States, and must be eradicated. This happened last year with the Mediterranean fruit fly, one of the world's most destructive pests of fruits and vegetables. The objective of the Medfly program is to prevent sustained infestations of this dangerous pest from occurring in the United States, Puerto Rico, the U.S. Virgin Islands, and north of the 16 degree parallel in Central America. On February 1, 1990, the Secretary of Agriculture declared a state of emergency due to an outbreak of the Medfly in California. APHIS and the State of California Department of Food and Agriculture began eradication activities for infestations of Medfly and the oriental fruit fly which was also found. Another emergency was declared on a later date due to an outbreak of the Medfly in Florida and a Mexican fruit fly outbreak in California. A total of 305 adult Medflies were found throughout California, and 22 were detected in Dade County, Florida, during these emergencies. These finds required that over 1,640 square miles be placed under quarantine to protect against infestation of major agriculture producing areas. All eradication efforts were successfully completed by November 9, 1990. The total cost of this effort was approximately $80 million, which was shared on a 50/50 basis with the States.

PLANT AND ANIMAL HEALTH MONITORING

Plant and animal health monitoring activities are designed to quickly discover foreign diseases and pests before widespread agricultural damage occurs, reduce pest control costs, and provide information to support the certification of U.S. agricultur-

al exports. These are cooperative efforts of the Federal and State governments and industry producers.

ANIMAL DISEASE DETECTION

Scientifically sound animal health information is critical for the design and efficient implementation of all current and future APHIS programs to protect the health of the U.S. livestock industry. As the National Animal Health Monitoring System becomes a focal point for ongoing disease surveillance activities, it will become a powerful tool for integrating both industry and consumer interests. This Federal-State-industry program collects descriptive data about the occurrence and costs of animal health events from a statistically determined sample of selected food animal producers. Reports can be used by producers to improve the health and production efficiency of livestock and poultry. An ongoing monitoring, surveillance, and detection system has become the most practical key to food safety. Other countries accept U.S. products based on their safety and wholesomeness. We must have a viable system in place that ensures that our animals are as healthy if not healthier than the animals of other nations. The emphasis on animal health and food safety has become a fundamental strategy to market animals for the future. "Safe for human consumption" have become watchwords for the global market.

PEST AND DISEASE MANAGEMENT

In cooperation with the States, APHIS conducts programs to prevent, detect, and eradicate pests and diseases that are harmful to agriculture. One approach, Integrated Pest Management, has been effective in identifying multifaceted solutions in combating plant and animal pest and diseases. Interstate shipments of plants, livestock, and related materials are monitored and regulated to prevent the spread of disease. APHIS also protects agriculture, natural resources, and human health and safety from damage caused by wildlife through identification, demonstration, and application of the most appropriate control methods.

BOLL WEEVIL

The boll weevil program continues to make good progress, both programmatically and financially. The Southeast Cooperative Eradication program involved about 504,000 acres in 1990, up from 374,000 acres in 1989. The cumulative acres treated, however, decreased from 4,264,000 in 1989 to 1,038,000 in 1990. Of the acres in the program, 94 percent are averaging from 0 to 5 weevils. Of these, 77 percent have no weevils. Current eradication efforts in Alabama, Florida, and Georgia should be accomplished by the end of this calendar year. APHIS and the Southeastern Boll Weevil Eradication Foundation accomplished significant cost savings in 1990. In addition, the cotton growers in Alabama, Florida, and Georgia voted this year to authorize an increase of $10 per acre in their assessments for the period 1990 through 1994. The States of Alabama, Florida, and Georgia appropriated funds to be used to offset a portion of the grower's assessments this year. These cost savings and additional grower contributions enabled the Foundation to make its first installment toward repayment of the CCC advance we made to cotton growers in 1989. The foundation also liquidated its entire debt owed to the American Cyanamid Company, which supplies chemicals to the program.

BRUCELLOSIS

The brucellosis eradication program also continues to progress. At the end of 1990, there were 30 States plus the District of Columbia and U.S. Virgin Islands, in Class Free Status; 15 States plus Puerto Rico in Class A; and 5 States in Class B. The program achieved a major milestone in fiscal year 1990 when the number of herds under quarantine dropped below 1,000. As of December 30, 1990, only 907 herds were under quarantine, a 26 percent reduction from the 1,231 herds under quarantine at the same time a year earlier. There were substantial improvements occurring in all of the Class B States.

In fiscal year 1990, North Carolina and Michigan were the 34th and 35th States to earn validated free status in the swine brucellosis program.

SALMONELLA ENTERITIDIS

Salmonella enteritidis (SE) is a poultry disease that is causing a public health concern. There has been an increasing number of human outbreaks and isolates during the last decade according to the Centers for Disease Control (CDC).

APHIS began a program of reducing the incidence and risk of SE for both domestic egg-laying chicken flocks and humans. An APHIS program, initiated as an emergency in February 1990, has focused on mandatory testing of multiplier and grandparent flocks to ensure a source of clean replacements of egg-laying poultry. In addition, the program implemented a tracing component where human SE outbreaks are traced back to possible SE-infected flocks of origin. If these flocks test positive for SE, eggs and poultry are restricted. Eggs can only move interstate to pasteurization plants where the process kills the SE organism. During 1990, over 300 million table eggs from SE-positive flocks were diverted from the table-egg market.

The number of human outbreaks of SE reported by CDC dropped from 79 in 1989 to 67 in 1990. Improved epidemiologic investigations have been one of the benefits of the USDA program. Less than one-third of these 75 outbreaks were actually proven to be associated with table eggs. The number of serious incidents in institutional settings also decreased during this same time period as did the number of human deaths.

APHIS is working with Agricultural Marketing Service and the Food and Drug Administration to arrive at a comprehensive risk reduction program which will rely upon voluntary support from the table egg industry. APHIS is leading this interagency effort to control a complex disease problem affecting public health as well as the economical health of the poultry industry.

ANIMAL CARE

Under the Animal Welfare Act, APHIS is responsible for ensuring the humane care and treatment of warm blooded animals used for research, exhibition, or sold wholesale as pets, and ensures the humane care of regulated animals when transported in interstate and intrastate commerce. APHIS is also responsible for the enforcement of the Horse Protection Act of 1970. The Act prohibits the showing or selling of sored horses.

Regulations to implement all of the 1985 amendment requirements to the Animal Welfare Act except for the exercise of dogs and the psychological well-being of nonhuman primates became effective on October 30, 1989. Specifications for the humane handling, care, treatment, and transportation of guinea pigs, hamsters, and rabbits were published as a Final Rule on July 16, 1990, and became effective August 15, 1990.

The final rule amending the Animal Welfare Act regulations concerning exercise for dogs and the psychological well-being of animals was published in the Federal Register February 15. This culminates 6 years of efforts to ensure that the regulations conform to congressional mandates passed in 1985. More than 21,000 comments from scientists, humane organizations, and all manner of other groups and individuals were received and considered in the course of developing these regulations. The regulations become effective March 18. The deadline for compliance is August 14, 1991, except where major structural changes are involved, in which case the deadline is February 15, 1994. In keeping with our practice of interagency coordination, the animal welfare regulations were developed in cooperation with the National Institutes of Health who also have enforcement responsibilities for the proper and humane care of research animals.

SCIENTIFIC AND TECHNICAL SERVICES

APHIS develops methods to control animals and pests that are detrimental to agriculture, other wildlife, and public safety. APHIS also conducts diagnostic laboratory activities that support the Agency's animal disease prevention, detection, control, and eradication programs.

The Agency, under its broad authority to protect plant and animal health, has established a regulatory structure for bringing the benefits of genetic research to the marketplace, while protecting against the release of potentially harmful organisms into the environment. Further, it ensures that the veterinary biologicals developed for combating animal and fish diseases are potent, safe, pure, and efficacious.

BIOTECHNOLOGY

APHIS, under its regulatory authority, processes applications from the biotechnology industry, the academic community, as well as Government researchers, for field trials to test a wide variety of plants and micro-organisms produced through biotechnology. Additionally, the Agency licenses genetically engineered veterinary biological products. For fiscal year 1990, the program issued 50 permits for environmental release, 278 permits for movement, and 3 licenses for vaccines produced through biotechnology. These applications require comprehensive environmental as-

assessments, and have become increasingly complex, both in terms of the number of release sites and the number and novelty of expressed traits. For example, one applicant has requested a permit to conduct field tests at 54 sites in 12 States. In the first 5 months of fiscal year 1991 alone, we have already received 45 applications for field tests. We expect this figure to reach at least 100 by the end of the fiscal year, double last year's total.

On the international scene, the Agency works to support the adoption of scientifically based regulations that enable—not hinder—the transfer of environmentally safe biotech products to the agricultural producer.

EXPANDED RESPONSIBILITIES

Since the inception of APHIS in 1972, we have had to assume new or expanded responsibilities. One program, Animal Damage Control (ADC) was transferred to APHIS in 1985 to carry out cooperative programs to control wildlife-caused losses to agriculture, safety hazards at airports, and public nuisances in a variety of areas. The requests for participation in cooperative efforts and for technical assistance has steadily increased. Others include functions such as biotechnology regulation, environmental protection, and additional regulatory requirements. It now costs the Agency over $2.5 million annually to comply with various Federal environmental statutes. In addition, individual environmental impact statements cost $1 million or more to complete. Many need to be done over the next several years for our programs to continue. APHIS' regulatory analysis responsibilities have increased as a result of expanded executive oversight and control requirements that took effect in the 1980's. In addition, increased public awareness and participation in rulemaking processes has increased dramatically the workload involved in promulgating regulations. In the 1970's, it was not unusual for a regulatory proposal to receive less than 10 public comments or none at all.

By the late 1980's, however, every proposal is subject to numerous, diverging comments from the public. We received over 37,000 public comments and spent more than $1 million promulgating all regulations related to the 1985 amendments to the Animal Welfare Act.

WORKLOAD INCREASES

We have experienced dramatic workload increases in some of our key programs. For example, inspections of passengers at air and sea ports rose from 16 million in 1980 to 37 million in 1990, an increase of 131 percent. This increase is the result of additional airports designated to handle international traffic as well as the expansion of many existing international terminals. Also contributing to inspection increases is the construction of additional border crossing facilities. Import/export inspections have increased anywhere from 33 percent to over 2,200 percent depending on the particular species or commodity between 1972 and 1989. Animal welfare violations processed and complaint investigations increased 858 percent and 190 percent respectively, between 1973 and 1989.

FISCAL YEAR 1992 BUDGET

The fiscal year 1992 program level is proposed at $460.5 million, an increase of $12.3 million above the 1991 current estimate of $448.2 million. Of this amount, $119.5 million will be funded from user fees and trust funds.

Our 1992 budget request is focused on preventing further erosion of Agency buying power and rebuilding the Agency infrastructure to carry out its basic mission. The budget includes $16.5 million to cover pay cost increases. The AQI program is proposed at $108.3 million and will continue to serve as the major defense against the introduction into the United States of harmful agricultural pests and diseases. The import/export program request of $10.2 million will allow APHIS to carry out a full range of activities designed to ensure that all imported animal and animal products are free of infectious disease. For the past several years, the number of animals offered for export and the number of permits requested have increased by approximately 40 percent per year.

The 1992 budget proposes $5 million to begin a 10-year contract for automated data processing procurement and equipment maintenance. This project will establish a strategic framework for the implementation of the next generation of information resource management systems. The Agency's goal is to replace its current combination of incompatible, antiquated automated data processing equipment with a fully integrated system capable of communicating and exchanging information throughout the Agency as well as with other Federal and non-Federal organizations.

The building and facilities account contains a request for $23.4 million, which will fund new construction, as well as provides for maintenance and repair of APHIS-operated facilities. Specifically, the 1992 building and facilities account proposes $2.5 million to construct outdoor animal holding facilities for the Animal Research Laboratory at the Denver Wildlife Research Center in Colorado; $5.4 million for repairs, alterations, and renovations for currently owned APHIS facilities; $3.5 million for the APHIS share of improvements and repairs to the facilities at the Plum Island Animal Disease Center in New York; and $12 million to construct greenhouses, an equipment storage building, and a utility substation as part of the second phase of a 3-year, $33 million project at the National Germ Plasm Quarantine Center in Beltsville, Maryland.

FUNCTIONAL DISPLAY

The 1992 budget request includes new fruit fly exclusion and detection line-items. Funds for these activities were consolidated from four existing line-items: Medfly, Mexfly, pest detection, and miscellaneous plant and animal diseases. This is consistent with the effort we began last year to display our budget along functional lines.

BUDGET DECREASES

We have proposed a number of program decreases totaling $31.1 million. These were not easy or popular choices and you have seen some of these proposals in the past, Mr. Chairman. However, given the current budget constraints, we ask the committee to give our budget proposal serious consideration.

CONCLUSION

Mr. Chairman, even though there has been significant accomplishments in many programs, significant challenges remain. I am confident our progress will continue. On behalf of the APHIS organization, I thank you and the Committee for your support through the years. I will be happy to answer any questions.

BUDGET

Senator BURDICK. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you very much. Let me join you in welcoming our panel of witnesses, particularly our Assistant Secretary for Marketing and Inspection Services, Jo Ann Smith. It is always a pleasure to meet with this panel and go over the budget for the next fiscal year.

I do have some questions to put to the witnesses, but generally I would say that the budget request is not altogether surprising in view of the budget constraints with which we have to deal. We recognize your problems in that regard, and we understand the challenges that you have had to face in trying to identify the highest priority activities that come under your jurisdiction.

I note that we were able to get the full Committee on Appropriations yesterday to approve an $8 million supplemental for the Food Safety and Inspection Service. These funds are needed to maintain mandatory in-plant inspections.

However, I am troubled by the legislative proposal that relates to a requirement that industry share 50 percent of inspection costs for daily inspections provided beyond an 8-hour shift in the workday. I will refrain from going into those details right now and simply withhold my questions until everybody has had a chance to ask some questions.

Thank you, Mr. Chairman.

Senator BURDICK. Senator Bond.

FOOD SAFETY

Senator BOND. Thank you, Mr. Chairman. I join you and the ranking member in welcoming Ms. Smith and her able colleagues.

Ms. Smith, first thing I wanted to focus on briefly is food safety.

Several years ago, Senator Pryor and I introduced a food safety bill that was developed essentially with the assistance of the veterinary medical community. And section 1615 of the 1990 farm bill has a national competitive research initiative, and we see this as offering a tremendous opportunity for wide participation in research efforts. And one of the listed high priorities is in nutrition, food quality, and health, including microbial contaminants and pesticide residues.

We are interested in finding out whether you believe pursuing research in the line of these, of monoclonal antibodies, to give real time results on either natural or pesticide contaminants will be a high priority, and the importance you might place on that.

Ms. SMITH. Well, certainly, Senator, we would say that in today's monitoring of the safe food supply, as it relates to meat and poultry and also fruits and vegetables, the fact of being able to find any residue problem or any microbial contamination more readily and quickly as we move through the inspection line, is very key to making certain that we continue to send to the public a safe and wholesome food supply.

Part of our problem, as you know, is not being able to test quickly enough as we move through the line. And so we put a very high priority on this. We think that food safety is a No. 1 priority. I might ask Dr. Crawford to contribute anything he might have to the priority of this.

Dr. CRAWFORD. Thank you, Ms. Smith. Senator Bond, as you know, we gave the departmental testimony on the bill. I appreciated very much the opportunity to do that, and also the initiative taken by you and Senator Pryor. I can tell you that within the Department, we formed an internal committee to govern the workings of the food safety research aspects of the bill you mentioned.

It is on target, and we intend to follow through on the very things that you had as high priorities in the original bill. We had a public meeting in December, held at the National 4–H Center, in order to define food safety priorities for the Department, consonant with the aspects of the bill. And we are now in the business of trying to allocate moneys and get research up and going in a competitive fashion, in order to address that.

We believe it will result in a safer food supply for the United States. It is long overdue, and we are very eager to get on with the job.

STREAMLINED INSPECTION SYSTEMS

Senator BOND. Thank you. I am delighted to hear that. Ms. Smith, I noticed at one point in your testimony—and I apologize, I did not get here to hear all of it—that you mentioned one report by the National Academy of Sciences.

We have had a number of comments and questions about the streamlined inspection system for cattle, and have reviewed the NAS comments on that. And I wonder if you might give us some

idea of how you would respond to that and what your views are on the findings of that report.

Ms. SMITH. We have had lots of comments on SIS also, as you well know. We do have the report from the National Academy, and have, of course, given very strong consideration to what it says.

And let me here again ask Dr. Crawford if he would like to add to the fact that we will make a public statement on the findings of the National Academy review of this particular proposal, and the plans for further implementation.

Dr. CRAWFORD. Our formal response, Senator, to the National Academy of Sciences study on streamlined inspection systems for cattle will be available within the next few days. It will be a report that we will share, of course, with the committee. We are focusing on the recommendations of the academy, and I can tell you in advance that we intend to follow those as closely as feasible, depending on the budget and other considerations.

As you recall, the National Academy of Sciences indicated that after having evaluated the data on this program, their key and principal recommendation was that a streamlined inspection system with partial quality control was what they would recommend. The Department has considered that and other recommendations that have been made in the report, and we intend to follow those recommendations precisely.

BRUCELLOSIS

Senator BOND. We look forward to seeing your response. Two more questions I would like to address. It is probably better to address them to Dr. Glosser, since they are rather specific. As you may be aware, Missouri's brucellosis testing program is very important to us.

We are very pleased with, and think Dr. John Barkley is doing an excellent job. Missouri ranks second in the Nation in the number of cow/calf operations. And we had, as of the beginning of this year, 4.5 million cattle on 83,000 farms. Unfortunately, while we have been able to get up to the position of being a class A State, we still are very much concerned because we border two of the six highest brucellosis-infected States in the Nation.

And we are very committed in Missouri to the brucellosis testing program, and each year APHIS seems to have a minimum amount of high enthusiasm in terms of budgetary recommendations. I wonder why you continue not to regard the Missouri brucellosis problem as seriously as we think it should be treated.

Dr. GLOSSER. Senator, we share your enthusiasm and recognize that the progress Missouri has made in the eradication of brucellosis has been most impressive. You are in a strategic spot geographically. You are at a high risk because of being at the crossroads of livestock movements from many areas exposed or infected with the disease.

We certainly do not wish to portray that we are not supplying the necessary support and assistance to the State of Missouri in brucellosis. I think you and the industry have made tremendous strides in achieving class A status. Secretary Smith talked of less than 1,000 herds—there are 869 herds under quarantine. The dis-

ease is decaying nationally at the rate of 25 to 30 percent, and Missouri shares in that very fine reduction of known infected areas.

Senator BOND. We are concerned that we not cut back the funds and perhaps risk seeing those numbers go back up again, because we really cannot afford that.

Dr. GLOSSER. We share your concern. The 1992 budget requests $3.1 million more for brucellosis than we estimate for fiscal year 1991.

PSEUDORABIES

Senator BOND. One final question for you, sir, on the pseudorabies and our pork production. One of the most cost-effective ways, I understand, of obtaining a random blood sample is at slaughter time. Unfortunately, currently our State has a very low number of plants killing sows and boars. About 50 percent of our sows and boars are slaughtered at a plant in Chicago.

But unfortunately, there is no agreement in place that would allow collection of those samples. It seems to us that if the USDA could implement a random sample collection, it would provide an effective, economical and timely method of determining Missouri's infection rate. Do you see a possibility that USDA would be able to establish some kind of agreement or program at the plant in Chicago?

Dr. GLOSSER. We certainly will look into that, Senator. Because of the dynamics of the marketing system, there are changing patterns. I am not familiar with the exact circumstances of the Chicago plant. But we certainly agree from a national strategy that slaughterhouse collection of samples is really a very cost-effective method to deal with it.

Senator BOND. We will supply information at the staff level and I will not take up the time of my colleagues. I have several other questions, Mr. Chairman, which I would like to submit for the record and not prevail further upon your generous allocation of time.

ANIMAL DAMAGE CONTROL

Senator BURDICK. Madam Secretary, your testimony notes that animal damage control operations are reduced by $4.2 million. However, the budget shows a reduction of $5.4 million. What is the discrepancy?

Ms. SMITH. I am going to defer, if I might, to Dr. Glosser.

Dr. GLOSSER. The reduction of $4.2 million, Mr. Chairman, is the net reduction from fiscal year 1991. It does not reflect the pay cost increases; which, if factored in, means a $5.3 million reduction in the level of program activity.

Senator BURDICK. You state that you would reduce current programs involving direct control. Give us an example now of what you mean by direct control.

Dr. GLOSSER. Direct control is the operational aspects of the program such as aerial hunting and trapping. As you know, Mr. Chairman, the animal damage control program has provided the leadership in wildlife damage control. And we have worked very

closely with cooperating State and county and industry groups in the operational direct control activities.

In the time of budget constraints, our cooperators know these techniques and skills as well as we do, and as difficult as the decision was, we are focusing on technical assistance and advice and asking the States and industry to assume more of the operational aspects.

Senator BURDICK. Would you provide for the record the specifics under which direct control programs would be reduced and the amount of the reduction?

Dr. GLOSSER. Yes, sir; we would be happy to.

[The information follows:]

ADC DIRECT CONTROL REDUCTIONS

Direct control programs would be reduced by taking the following steps:

1. Funding for the Western Region will be cut in fiscal year 1992 by $3.5 million. In order to meet the reduction, the following will take place:

2. Eliminate the planned expansion of the Kansas program ($50,000).

3. Eliminate all contracted aerial predator hunting in the mountainous areas in the West ($550,000).

4. Eliminate 70 Animal Damage Control Specialists (ADCS) throughout the Western United States ($2,900,000).

Most of the ADCS in the west are headquartered in their homes; therefore, no offices per se would be eliminated in the Western Region.

Funding in the Eastern Region will be reduced in fiscal year 1992 by $1.8 million. We propose to eliminate all federally funded direct control programs, and revert to a primarily technical assistance program. We would allocate $2,127,500 ($92,500 to each of the 23 State offices now in existence) to conduct technical assistance programs in the Eastern States. The remaining $468,999 would allow for a small staff in the Eastern Regional Office, and some funds for costs associated with the reduction in force actions required.

The following district offices will be closed: Stuttgart, Arkansas, Simpson, Illinois, Louisville, Kentucky, Crowley, Louisiana, Bastrop, Louisiana, Grand Rapids, Minnesota, Stoneville, Mississippi, Montpelier, Vermont, Lebanon, Pennsylvania, Sandusky, Ohio, Knoxville, Tennessee, Jackson, Tennessee, Blacksburg, Virginia, Waupun, Wisconsin, Rhinelander, Wisconsin.

Thirty-nine staff-years will be reduced in the Eastern Region.

Senator BURDICK. Does your reduction reflect a proposal to close any ADC field offices?

Dr. GLOSSER. No, sir; we would not close any State offices. We would close about 15 small district offices in the East.

STREAMLINED INSPECTION

Senator BURDICK. Now I would turn to you, Madam Secretary. Last year you expressed considerable concern about the streamlined inspection service system for cattle. I am surprised that neither your statement nor that of Dr. Crawford's mentions SIS.

We ask you to report to us in considerable detail of any plans for expanding SIS or SIS pilots. Will that report be with us next week or in the near future?

Ms. SMITH. We will be happy to file the report with the committee when it becomes available, Mr. Chairman.

If there is some specific question that you might have, I could answer it now or I would be happy to submit it to you for the report.

Senator BURDICK. Very fine. We also stated that no expansion is to take place until the formal response to the recommendations of the National Academy of Sciences and the development of an implementation plan is submitted to Congress for a review. When can

we expect your implementation plan, and how much time will Congress be given to review it before it is implemented?

Dr. CRAWFORD. Mr. Chairman, our formal response to the academy will be available in the next few days. Any implementation plan would follow that, and be submitted to the Congress for review.

We have not decided about implementation at this point, but the report itself and our response to it will be available within a few days. And at that time, we will indicate whether or not we intend to go forward with implementation. And if so, when a plan for implementation will be provided to you.

Senator BURDICK. So the answer is in a few days?

Dr. CRAWFORD. In a few days for the report, yes, sir.

Senator BURDICK. Do you have a schedule for proposing and finalizing regulations for SIS? And if so, what is it?

Dr. CRAWFORD. We have no plan for that at this point.

MERGER OF OFFICE OF TRANSPORTATION

Senator BURDICK. I have another question for you, Madam Secretary. There are some concerns about the manner in which the Office of Transportation was merged with the Agricultural Marketing Service.

I am not passing judgment on whether or not the office should have been merged; however, in our report language last year, we said, "The committee expects to be notified of any reorganization plan affecting the Office of Transportation prior to its implementation."

I received a letter from the Deputy Secretary on January 2 of this year notifying me that the Office of Transportation would be incorporated into AMS effective January 1, 1991. So the notice came to me after the action. Do you think this met with our request for notification?

Ms. SMITH. As we indicated earlier, it was, I think, well known that our plans were to merge OT in with AMS. The specifics of the timing that the formal notification reached the committee may have been later than we hoped that it would arrive here.

We feel it is by far the best movement for the services that the Office of Transportation has to offer. It certainly was an agency that needed to expand its operation and expand what it did for agricultural producers. There was a tremendous void in the agency's ability to readily serve the fruit and vegetable and livestock industries.

There is a tremendous need with the cost of gasoline and fuel going up, and diesel, that this agency had a great deal to offer by moving it into an agency that had hands-on experience and day-to-day kind of data that would monitor the need of additional transportation information in order to move products from producer to the consumer.

We feel it is by far the best thing to do, and we feel that you will see a real benefit to the producer as well as consumers.

Senator BURDICK. My question did not apply to the validity or the necessity of the material. My question was on the timely notice. We expect notice before the action is taken ordinarily. Can we expect that in the future?

Ms. SMITH. Yes, sir.

TRANSPORTATION ISSUES

Senator BURDICK. What transportation issues are currently being studied by AMS?

Ms. SMITH. I would defer to Mr. Haley.

Mr. HALEY. Thank you, Mr. Chairman. We have just completed a study in the area of rail abandonment in rural areas of America. In particular, we studied the economic impact of the abandonment of 500 miles of rail in Kansas. We are in the process of monitoring such effects throughout rural America. Once a study is completed, we work with the Department of Transportation and ICC to make sure that they understand the impact rail abandonments have on farm income.

We have also been looking at the back-haul issue, which was a subject of concern in the 1990 FACT Act. Another area of continuing interest is deregulation and its effect on both the trucking industry and the rail industry. We will continue to evaluate these issues now that AMS is responsible for agricultural transportation programs.

Senator BURDICK. How is AMS assisting agricultural shippers and other rural residents in analyzing and dealing with railroad line abandonment requests?

Mr. HALEY. As I mentioned, Mr. Chairman, we continue to study the effects of rail abandonment. In the process, we gather advice and counsel from experts and we share that information with the Department of Transportation and ICC. To further assist shippers and rural residents, we submit briefs in support of grower interests at government proceedings.

Furthermore, I might note that while AMS' Transportation and Marketing Division does not have primary jurisdiction in this area, we are very actively involved with the parties that do. We have participated in hearings on agricultural transportation cases, and we will continue that practice wherever we see an adverse effect on agriculture.

Senator BURDICK. Senator Cochran.

PESTICIDE RESIDUE TESTING

Senator COCHRAN. Mr. Chairman, thank you very much. Before getting into some questions on specific items, I wanted to express my appreciation to Ms. Smith and the folks at APHIS and AMS as well, for helping resolve a misunderstanding that we recently had at a Gulfport, MS, laboratory which was conducting some pesticide residue testing and analysis work.

I am told that a cooperative arrangement has now been worked out that is satisfactory to all parties. The arrangement is between the Department of Agriculture and the Food and Drug Administration.

INSPECTIONS AND USER FEES

As I mentioned earlier, there is a proposal that troubles me on the subject of Food Safety and Inspection Service inspections and user fees. As I understand it, the proposal contemplates legislation being adopted by the Congress that would require industry to share 50 percent of inspection costs for daily inspection provided

beyond a one 8-hour shift. I am troubled by that, because I do not understand how you can make a distinction between plants that work around the clock and those that do not.

If meat or poultry is required by Federal law to be inspected, it seems to me to strain one's rationalization capacity in seeking cost-sharing payments for a second or third shift and not for the first shift. Has this legislation been prepared for submission to the Congress? If not, when do you expect that that will be drafted and submitted?

Ms. SMITH. It has not been totally prepared. It is in the process of being prepared. It has not been submitted.

Senator COCHRAN. Has there been any consultation with industry or others in trying to develop a consensus around this proposal? If so, what kind of reaction have you received?

Ms. SMITH. There has been discussion with industry. There has been, of course, some concern raised by some more than others. The positive from industry is that this proposal would also give them the opportunity in a sequestration to be able to operate. Under the current law, they cannot do that; they cannot pay for it themselves and continue to operate.

Particularly because of the budget timing, our poultry industry has been faced with this situation in the last few years. Fortunately, at the last minute, the program has been funded and they have been able to continue operations. But the uncertainty that comes at a time of year when they particularly are in a very high volume production is unfortunate. That part of it has probably met with more acclaim than the other cost sharing.

I do not think I could sit here and say that industry at any point wants to pick up the tab.

Senator COCHRAN. This entire area concerns me. As Senator Bond pointed out, there are initiatives in the Congress on the food safety and inspection issue. We had, as you know, a real controversy or battle in the Senate last year on a seafood inspection initiative that I continue to hope will get final approval, and we can see that kind of inspection extended to that industry.

One aspect of all of this is some concern among those who work for the Food Safety and Inspection Service that their jobs are endangered or that they have some likelihood of being cut back in total labor force if changes are made in the procedures to coincide with the evolving technologies and other systems that may be available for conducting these inspections.

I am specifically talking about the poultry industry now, and maybe the pork and beef industries as well. I really think that we need to spend some time working on improving efficiencies in these areas, and at the same time not compromising whatsoever the quality of the work that is done in trying to ensure safe and wholesome nutritious meat and poultry products, and seafood products. To me, the Department of Agriculture is especially well suited for having the lead responsibility, and that is what the Senate decided last year when we voted on that very issue. I hope we will continue to work on this area.

I am not sure that this proposal is going to get anywhere, and that is why I bring it up and just ask a question or two about it.

There have to be some changes and modifications made to assure the industry that the Government is willing to do something to improve its efficiency. I think that is important; I think we need to consider that.

I do not mean to frighten anybody that there is this evil lurking in the bushes that is going to go out and eliminate a lot of jobs at FSIS. That is not intended at all by the things I am considering and thinking about.

MIGRATORY BIRDS

The APHIS budget has some provisions in it that are particularly important to my State. I want to mention the problems that we continue to see in the fish-production industry with migratory birds and fish-eating birds, such as cormorants, egrets, and herons. I know the Fish and Wildlife Service and the Animal Damage Control Agency have formed a task force to work on this issue and to make recommendations to each agency on how to resolve the problem. I wonder if you can give me any indication today whether any progress is being made and if there is any better cooperation between the agencies so that there can be greater flexibility in handling depredation problems.

Ms. SMITH. Dr. Glosser.

Dr. GLOSSER. Senator, I cannot give you the precise status of the consultations that we have had with the various agencies. But I will say in general that I have been very pleased and impressed with the openness that we have been able to share with our sister agencies that have responsibility in migratory birds.

And as you can fully appreciate, there is a great deal of concern and interest in this issue. I have been pleased at receiving the reports that, while we are not in total consensus, the goal is to expedite the process to issue permits.

We are certainly not there yet, but I would hope and trust that with further discussions we can come to a workable program for the affected industry.

Senator COCHRAN. I appreciate that. I just wanted to stress the importance of it. I do not know what the dollar figures are, but estimates run pretty high on the cost to the industry of birds that prey on fish in these ponds in the Mississippi Delta. It has gotten to be a very big industry, and this problem continues to get bigger and bigger.

Some of these birds are protected or semi-endangered I have forgotten all of the classifications; there are varying degrees of classification. But we might have to classify the fish here before long if we are going to make any progress.

BRUCELLOSIS INDEMNITIES

Also, I wanted to mention one thing of parochial importance to me. The Brucellosis Eradication Program is and has been very successful. It has come to my attention there are some States, including mine, that are making extra efforts to move to class A status and could do so with some additional funding earmarked for indemnity to serve as an incentive for owners to depopulate exposed and infected herds.

Just recently, as a matter of fact, I have been talking to our good friend, Jim Buck Ross, the commissioner of agriculture in Mississippi, and he is concerned about this. And I was on the phone with some veterinary medicine experts in our State, and I am convinced that we do need to try to deal with this in a more sensitive way—with additional funding for indemnification.

How much funding do you estimate would be useful or helpful to assist those States that are approaching class A status?

Dr. GLOSSER. I do not have that estimate at hand. Quite frankly, the whole issue of depopulation and indemnification is, with the existing Federal regulations that we operate under for payment of indemnification, out of balance with current cattle prices.

We continue to be frustrated that even the small amounts that we have allocated for depopulation are not expended because they are not reflective of the marketplace. I have instructed my staff to evaluate depopulation indemnity adjustments for indemnification in anticipation for the 1993 budget cycle, because this continues to be of concern not only to the industry but to our State colleagues in the Southeast, particularly.

The progress in brucellosis has been very, very forthright. Aside from indemnification, the other tools of adult vaccination and adjacent herd testing have paid off marvelously. But indemnification is an issue that continues to require a reexamination.

Senator COCHRAN. If we continued at the present rate of progress, do you have an estimate on when we might expect eradication to be complete?

Dr. GLOSSER. I would say, based on the past year or two since we have implemented some of the major aspects of rapid completion, that if we continue to decline at the 25- to 30-percent annual rate of reduction per year, that within 3 to 4 years we would be down to the last vestige of brucellosis.

FOOD SAFETY

Senator COCHRAN. Well, that is very good news. I congratulate you and all the others at the Department for the very successful effort and leadership in this area.

Again, Mr. Chairman, on the subject of food safety and inspection, I have a couple of other questions.

One is a curiosity. I have notes that tell me that there are some new technologies available for trying to bring down the fat content in meat products and that that new technology is being held up at the Department. I do not understand how the Department can hold up technology. What is the story there?

Ms. SMITH. I do not think the Department has the ability to hold up technology. In fact, we certainly have a very strong commitment to recognize any new technology. I think the issue is the process in which we go about reviewing and releasing the use of new technology, whether it is through a rule making or whether it is through a policy memo. That is the issue, not the technology.

Senator COCHRAN. Why do you have to release anything? I do not understand it. If you are not releasing the technology, is that not holding it up?

Ms. SMITH. The technology that is available right now has to do with a product that would be available that would be derived from

a new type technology that has been brought forward. The issue for us as an agency is that we would want to have any kind of a rule or policy remain open for any new technology to come forward. We do not want to limit it to anyone who has new technology that might be able to bring a reduced-fat product forward.

Senator COCHRAN. Do I understand, then, that the Department has to say that this product that is produced using a new technology is safe for human consumption? Or does it have to do with labeling? That is why I bring this up; I want to understand it.

Ms. SMITH. It would have to be labeled. We feel that it is a new product and it would require labeling. And I would ask Dr. Crawford to comment.

Dr. CRAWFORD. The issues are both, Senator. We have to determine first whether or not the product is safe for human consumption. And the second concern is that it is translated into the granting of the label. In other words, any new food product, if it contains meat or poultry, has to have a label submitted to us for approval.

Senator COCHRAN. How long has this request been pending at the FSIS?

Dr. CRAWFORD. I believe the final data package was received about 3 or 4 months ago, something like that.

Senator COCHRAN. What specifically is the request?

Dr. CRAWFORD. Their request is to grant a label for a new kind of food product that has a process applied to it which will reduce the fat. It changes, in effect, a regulation or identity standard. The question is whether or not that can be accomplished by a simple policy memorandum or whether we need to have a Federal Register notice with public comment.

Senator COCHRAN. When do you expect to decide that?

Dr. CRAWFORD. Within a very short time. Normally we decide labeling matters within 10 days, but this is a new technology. There were some safety questions that had to be addressed. These have now been addressed, and so we expect a very rapid decision.

PESTICIDE DATA

Senator COCHRAN. Thank you.

The Agricultural Marketing Service received an appropriation last year of $11 million for the purpose of administering a new food safety initiative. I am told that that new initiative is now being described as a pesticide data program. Have you requested any funds for this program in this budget? And if so, what specifically would you use the funds to do?

Ms. SMITH. We have requested funds, and I would ask Mr. Haley to give you a complete analysis of how it will be used.

Mr. HALEY. The specific appropriation for fiscal year 1992 is an additional $10 million. As you know, Senator, this is a new program that is complementary to, but does not duplicate what FDA does and what the States do. They are involved in the enforcement of pesticide residue levels.

What we are doing is collecting pesticide residue data that will help EPA to more accurately assess the risks of pesticides to humans. The data will be used in the risk assessment process at EPA. To clarify, the other programs are involved in enforcement; our program is directed toward risk assessment.

We know very well that the pesticide residue testing that is done for enforcement purposes takes place in the field; at the farm gate. However, we know from scientific evidence that pesticide residues break down, so we are trying to collect residue data as close to the dinner table as possible so that EPA can make more informed decisions at EPA on tolerances.

To specifically answer your question, we have worked with the EPA and the FDA over the last 8 months to set mutually approved protocols and methodologies for residue sampling techniques. We have generated a list of pesticide and crop combinations, using the priorities that the EPA provided to us. We have also established a quality control system so that the six States participating in the program would all be consistent in their methodologies for sample collection and analysis.

The $10 million of additional funding would allow us to expand to additional States and additional crop and pesticide combinations so we can collect a broader range of data for EPA decisions.

Senator COCHRAN. What is the correlation between that and food safety?

Mr. HALEY. Well, one example that I can offer is the alar issue of 1989. The reason the EPA had to take immediate action on the use of alar was because that agency did not have a resource for data on chemical residues.

If this system had been in place at the time, we might have proven that the residues were much lower than the conservative assumptions that EPA must make when they do not have comprehensive data. With more information, the Government might have taken less drastic action and saved apple growers many millions of dollars.

Senator COCHRAN. Do you find there is a lot of hysteria in this area and that this might help prevent it in the future? Somebody, you know, a movie star comes up here and testifies that something is not safe, and then everybody scrambles to react to that scientific observation. [Laughter.]

Is that what we are trying to do? Get a structure in place so that we will be able, for the benefit of the American public, to tell them what the facts are?

Mr. HALEY. Risk assessment is scientific. It is technically complex and subject to manipulation by individuals and organizations, as you mentioned. It is true that perception can be reality. I think we have experienced that in the last several years on food safety issues. This program was designed to calm the consumers and approach issues scientifically.

One portion of our program is educational. We will initiate that portion as soon as the data has been collected, analyzed, and shared with EPA. Then collectively, we will offer the public information to educate them on the degree of risks involved.

Senator COCHRAN. Thank you very much, Mr. Chairman.

Senator BURDICK. I know several people will be interested in that fat reduction program here. [Laughter.]

GRASSHOPPERS

Well, the subject I am going to touch on now is grasshoppers. Who is the grasshopper expert?

Ms. SMITH. Dr. Glosser is the grasshopper expert.

Senator BURDICK. You are proposing a reduction of $2,672,000 in the grasshopper program. What kind of year are we looking at for grasshopper outbreaks?

Dr. GLOSSER. Mr. Chairman, the grasshopper reduction reflects a substantial carryover of funds. The funds that we have available will be sufficient to address any grasshopper and cricket problem infestations we have in 1991. Very fortunately, the survey counts are down. They have increased over last year, but we certainly have the necessary resources to address any problems that are forecast in 1991.

We are hoping to continue some of our analysis of the integrated pest management studies that we have had in the West, and that will give us better forecasting data for grasshopper infestations.

GRASSHOPPER CONTROL

Senator BURDICK. You have been encouraged to cooperate in local cost sharing on other than range lands, such as the CRP lands. Are you doing so? And in what form?

Dr. GLOSSER. We are working with our sister agencies and the States to determine what role APHIS will have in those hot spots in the CRP lands. We have no specifics at this time, but we are prepared to work to meet local demands and the needs for control activities associated with grasshopper infestations on CRP lands.

SALMONELLA AND LISTERIA

Senator BURDICK. Dr. Crawford, I noted in your testimony that you are working on the incidence of salmonella and listeria. I have heard of salmonella, but what is listeria?

Dr. CRAWFORD. Listeria is basically a disease-causing bacteria that comes from the environment. It is found in livestock of all types and fowl, and also it is found in soil samples and plants that grow in the wild, and occasionally contaminates meat and poultry products.

And also it causes a disease in humans, Mr. Chairman, of major significance. The Centers for Disease Control in Atlanta estimate that there are about 1,600 cases in the United States per year of listeria infection. It also is considered to be a leading cause of stillbirth and spontaneous abortion in the United States.

We are concerned that the food supply, and in particular, the meat and poultry supply, be free of listeria so as to make our food supply safer. The full name of the organism is *Listeria monocytogenes*, and has become of major significance in the United States since the Jalisco cheese outbreak in California, where about 50 persons died from consuming contaminated product.

Senator BURDICK. Are we making any progress in these areas? Is the incidence decreasing?

Dr. CRAWFORD. The incidence of listeria is going down in terms of contamination of food products that we regulate. Figures on this will be released on an ongoing basis. But I can tell you at this point that our control program has been successful. It has been in place now for approximately 3 years. It has resulted in fewer contaminations, fewer recalls of products on the market, and less contamina-

tion of commodities in the meat and poultry category that we regulate.

With respect to salmonella infection, that has been increasing in the United States since the early part of this century, when typhoid infection, which also is a form of salmonella, began to decrease as we purified the water supply.

The largest number of cases of salmonella infection in the American population occurred in 1985, and that was due to a major outbreak caused by milk in the Chicago, IL, area. Approximately 20,000 citizens became ill and some suffered apparently permanent injury as a result of that outbreak.

Salmonella in products that we regulate has remained more or less static. The figures are increasing from eggborne infection as we have heard earlier, beginning in or about the year 1985.

We continue to be very concerned about salmonella infections in Americans and are trying a variety of programs aimed at reducing this kind of contamination, the most recent of which is the hazard analysis and critical control points system, which is a new and generally widely accepted form of inspection and food production system that will result in a safer product.

ORGANIC CERTIFICATION

Senator BURDICK. This is for you, Mr. Haley. As you know, the 1990 farm bill included the Organic Food Protection Act of 1990. What will your role be in carrying out this act?

Mr. HALEY. Mr. Chairman, I believe Ms. Smith has determined that AMS will be the lead agency on organic certification. As you also know, the program was authorized without any appropriations; however, we are heeding the will of Congress by requesting funds from the Federal Advisory Committee account within the USDA.

We have requested in fiscal year 1992, $120,000 to fund the activities of the National Organic Standards Board. We will solicit nominations and appoint the Board so that it can begin deliberations on the rest of the program. In other words, the Board will create the certification program, set the amount of user fees, determine the list of organic substances that can be used, and so forth.

Senator BURDICK. If you get this money in 1992, what kind of a program are you going to inaugurate?

Mr. HALEY. I think the legislation envisioned that the National Organic Standards Board would have primary responsibility to determine how comprehensive the program needs to be. We are going to work very closely with them on program design.

Again, without additional appropriations, I do not know how many times that Board will be able to meet to discuss those issues. The first order of business will be to determine and establish the type of organic standards to be applied to the various fruit and vegetable products and to meat and poultry products.

Senator BURDICK. Have you requested any money to take action under this act?

Mr. HALEY. Again, we are working with the Department to get moneys from its Federal Advisory Committee funds so that we can establish the Board. We have not requested any money in our 1992 budget for this activity.

SUBMITTED QUESTIONS

Senator BURDICK. Thank you for your testimony. Additional questions will be submitted for written responses, and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

ANIMAL DAMAGE CONTROL

Question: What are the equipment needs and costs of the Animal Damage Control Program (ADC)?

Answer: The equipment needs and costs for the ADC program are $2,213.646. This includes replacement costs for high-mileage vehicles, and approximately $500,000 for installation, inspection, repeaters, and additional equipment for a radio modernization program that has already begun. In order to respond to public requests for more non-lethal solutions, and to improve our response to damage problems, ADC must also invest in new technology such as computers, night vision equipment, frightening devices, and wildlife exclusion devices.

Question: Please provide for the record the amounts of funding for the various ADC projects as included in the House and Senate reports for the last three years. Also show the amounts included in the 1992 budget for these projects.

Answer: The information follows:

ADC Directives
(Dollars in Thousands)

	FY 1989	FY 1990	FY 1991	FY 1992
Guarding Dogs	$250	$250	$250	$195
Beaver Damage Control (MS)	0	100	100	78
Beaver Damage Control (WI)	100	100	100	78
Equipment Acquisition	385	0	0	0
Grackle Control	300	0	0	0
Blackbirds	368	368	368	294
Delta States Operations	275	275	275	214
Squirrel Control	52	0	0	0
Arkansas Operations	207	225	225	175
Maine Dept.of Fisheries	0	70	70	0
Wildlife Management - Curriculum	0	136	212	212
Cattail Management (ND)	0	0	100	100
Alabama Office	0	0	100	0
Additional Funding (MS)	0	0	100	0
Total	$1,937	$1,524	$1,900	$1,346

Question: Please provide a state distribution of ADC funds--both for operations and methods development.

Answer: Information follows:

	OPERATIONS		METHODS
	FY-1990 Appropriated	FY 1990 Non-Federal	FY 1990 Appropriated
Alabama	$41,379	0	$0
Alaska	42,050	0	0
Arizona	389,331	219,948	0
Arkansas	225,000	0	0
California	1,286,770	2,142,104	0
Colorado	690,598	283,439	4,483,122
Connecticut	8,488	0	0
Delaware	9,229	0	0
Florida	71,000	0	188,680
Georgia	78,500	34,439	0
Hawaii	72,815	209,566	213,581
Idaho	878,156	330,122	155,014
Illinois	79,000	453	0
Indiana	88,000	6,750	0
Iowa	7,257	0	0
Kansas	45,000	0	0
Kentucky	89,250	0	0
Louisiana	251,000	67,906	0
Maine	117,000	70,000	0
Maryland	69,871	20,000	0
Massachusetts	58,024	3,670	0
Michigan	91,000	43,000	0
Minnesota	210,000	0	0
Mississippi	292,321	220,698	310,937
Missouri	85,317	0	0
Montana	845,542	389,193	0
Nebraska	256,712	130,658	0
Nevada	607,663	537,022	0
New Hampshire	128,000	38,000	0
New Jersey	77,140	55,000	0
New Mexico	1,020,600	719,779	0
New York	108,000	2,000	0
North Carolina	75,000	1,390	0
North Dakota	605,516	239,458	108,410
Ohio	129,000	40,000	200,195
Oklahoma	678,547	629,489	0
Oregon	854,945	770,430	0
Pennsylvania	55,860	0	57,128
Rhode Island	8,488	0	0
South Carolina	71,000	0	0
South Dakota	375,295	0	0
Tennessee	168,750	394,570	0
Texas	1,923,241	3,880,811	0
Utah	854,562	769,436	477,680
Vermont	52,000	0	0
Virginia	98,000	30,000	0
Washington	461,210	299,561	218,624
West Virginia	70,000	8,500	0
Wisconsin	299,600	416,362	0
Wyoming	892,396	605,760	0
Sub-Total Field	$15,974,332	$13,609,512	$6,411,371
Departmental Charges	983,042 *		197,520 *
ADC National Initiatives	1,338,986 **		n/a
Total Operations	18,296,360		6,608,891
ADC Headquarters Support	1,013,906		177,753
ADC Regional Office Support	1,118,410		0
Sub-Total Support	2,132,316		177,753
Agency Overhead	1,827,287		588,682
Total	$22,255,963	$13,609,512	$7,375,326

* Departmental Charges are field costs paid at headquarters such as, telephone, postage, unemployment compensation, and workman's compensation.

** ADC National Management Initiatives include Environmental Impact Statement, Pocatello Supply Depot, Management Information System, National Agricultural Statistics Survey, Utah State University Agreement for Curriculum Development, and Radio System.

GRASSHOPPERS

You are proposing a program reduction of $2,672,000 in the grasshopper and mormon cricket program.

Question: You have been encouraged to cooperate in local cost sharing on other than rangelands--such as CRP land. Are you doing so, and in what form?

Answer: In FY 1990, a supplemental provided APHIS with $6.8 million. In FY 1990, treatments on CRP lands were as follows: Idaho (2,100 acres), North Dakota (1,202 acres), and Minnesota (2,716 acres). Due to ideal weather conditions, the grasshopper populations were not as high in these States as originally anticipated.

The Food, Agriculture, Conservation, and Trade Act of 1990 (FACT) does not mention specifically that APHIS should participate in the future control of pests on CRP lands. The FACT Act mentions that the Secretary of Agriculture, in consultation with State experiment stations, the Extension Service, the Soil Conservation Service, and State pest and weed control boards should make weed and pest control technical information and materials available to land owners. A committee has been formed, consisting of employees from the Agricultural Stabilization and Conservation Service and a number of other Federal agencies, to review the FACT Act and determine which agency or agencies will be taking the future lead on CRP treatments.

Question: What amount of funding have you used?

Answer: Of the $6.8 million supplemental which was provided to APHIS in FY 1990, the Agency has spent $168,000 leaving a remaining balance of $6.6 million.

Question: How much money remains in the grasshopper contingency fund?

Answer: In FY 1991, $5 million was appropriated to the Agency for these activities and almost $5.8 million was carried forward from prior fiscal years. This results in a sum of nearly $10.8 million. In addition to the $10.8 million, $6.6 million remains from the CRP supplemental, totaling $17.4 million in grasshopper no-year funding.

Question: What is the status of the grasshopper IPM project in North Dakota and Idaho?

Answer: The Grasshopper Integrated Pest Management (IPM) Project was initiated in 1987 as a 5-year experimental demonstration. In FY 1990, four treatment tactics were used in the project including baits prepared with Nosema locustae and Carbaryl, and the liquid chemicals malathion and Carbaryl. In North Dakota, 1,055 acres were treated by Carbaryl bran bait applications and 12,912 acres were treated with malathion. A small plot release of Nosema locustae, a naturally occurring protozoan parasite, was made in a special IPM project in the Delta Agriculture area of Alaska.

In the past few years, we have not been able to effectively use the IPM demonstration plots to test our latest developments because of the lower than average grasshopper populations. However, grasshopper populations appear to be building up in both Idaho and North Dakota. This trend is expected to continue in the foreseeable future as part of a typical 7-year grasshopper population cycle. In Idaho, crop protection treatments occurred in Jerome County bordering the IPM demonstration area. Carbaryl bait was applied aerially to 540 acres and malathion was applied to 1,000 acres.

For FY 1991, APHIS has increased emphasis on the development of biological control options, including foreign exploration for exotic predators and parasites of rangeland grasshoppers. One biological control option currently being studied is the use of egg parasites to destroy grasshopper egg pods. The parasites, imported from Australia, are tiny wasps of the genus Scelio.

Question: What is the funding for this project in 1990, 1991, and 1992?

Answer: In FY 1990, APHIS funded the IPM project at $3.4 million. Funding for the project remained at $3.4 million for FY 1991. In FY 1992, APHIS expects to fund the IPM project at the FY 1991 level from the grasshopper reserve fund.

SCRAPIE

You propose to decrease funding for scrapie by $846,000--the total amount made available last year. Yet you indicate that work will continue under the miscellaneous plant and animal pests and diseases program.

Question: How much money will you put into scrapie work, and what will you do with it?

Answer: At the time the budget was formulated last spring and summer, the negotiated rulemaking process--which APHIS and the industry had entered into as a means of restructuring a seriously flawed program--was just getting underway. We expected the process to take many months, and possibly more than a year, to complete. Consequently, and because the details of a new program could not have been known, our budget request allowed only the barest minimum of funding for scrapie--approximately $100,000--to avoid totally shutting down the Scrapie Investigation Center at Mission, Texas. The budget assumed that the bulk of funding for other activities, including surveillance, field trails and cooperative methods development projects relating to transmission studies, premise contamination, incubation period, and diagnostic procedures would be suspended at least until FY 1993.

Question: What progress are you making on the scrapie problem?

Answer: The negotiated rulemaking process has been completed with the reaching of a consensus on the specifics of a voluntary flock certification program for scrapie. Thirty-nine new infected flocks have been identified thus far in FY 1991. Under the current program, all scrapie-infected and bloodline animals are destroyed and Federal indemnity is paid. Indemnity is currently set at two-thirds of the appraised value of the animal, not to exceed $300 per head. The amount of money available for indemnities during the current fiscal year is $72,000, of which approximately $19,000 has already been paid out.

Question: What are you doing about the proposals for voluntary flock certification and limited indemnification?

Answer: With the reaching of a consensus on a voluntary flock certification program in the negotiated rulemaking process, the next step will be the publication of proposed regulations in the Federal Register for public comment. The limited indemnity proposal is an industry initiative that would allow payment of indemnity for known infested flocks for a limited period at the onset of the voluntary flock certification program. At this time, we do not plan to request funds for indemnity.

Question: What would be the cost of these two programs and how would they operate?

Answer: Preliminary estimates for the voluntary flock certification program indicate that the first year program costs without indemnity, will approximate $4.6 million. This includes $775,000 for continuation of the current program and $1.175 million for initial set-up of the certification program. The program calls for the gradual development of flocks that are certified to be "scrapie free," with participating flocks progressing through four classes of certification over time. Each class has specific requirements for flock recordkeeping, purchase of new animals, flock depopulations, actions upon animal deaths, and submission of diagnostic samples. The limited indemnity provision would allow payment of indemnity to owners of infected or exposed animals for a limited duration at the program's onset, after which time no further payment of indemnities would be permitted. The industry's proposal for indemnity has been estimated to cost an additional $4 million.

Question: What is the scrapie budget for 1990, 1991, and 1992?

Answer: The scrapie budget was $1.1 million for FY 1990 and $846,000 for FY 1991. For FY 1992, $100,000 will be devoted to scrapie through miscellaneous plant and animal diseases.

PSEUDORABIES

Question: How many states are involved in the pseudorabies control/eradication program?

Answer: Forty-eight States and Puerto Rico have officially enrolled in the five-stage program. Of the two States not officially enrolled in the program, both have formed pseudorabies advisory committees and are expected to formally request admission to the program soon.

Question: How much funding is the industry requesting for its 10-year eradication program?

Answer: The 10-year National Pork Producers Council-endorsed budget approved December 21, 1989, in millions of dollars, is as follows:

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
USDA	2.8	4.5	12.7	12.6	16.5	12.6	8.7	5.4	4.5	4.4	84.7
States	2.8	7.0	10.2	12.6	16.5	12.6	8.7	5.4	4.5	4.4	84.7
Producers	3.4	5.6	8.2	10.3	13.7	10.3	6.9	4.1	3.4	2.8	68.7
Total	9.0	17.1	31.1	35.5	46.7	35.5	24.3	14.9	12.4	11.8	238.1

Question: How much money would be needed to accomplish this goal?

Answer: For FY 1992, the amount of Federal funding required according to the industry's plan is $12.6 million.

Question: How much non-Federal money has gone into this program in 1990 and 1991?

Answer: In fiscal year 1990, State legislatures appropriated $5.8 million for pseudorabies. Discretionary funding from general appropriations by State animal health authorities exceeded $4.0 million. Figures supplied by the National Pork Producers Council indicate that producers contributed $13.4 million to pseudorabies control and eradication in 1990. Figures are not yet available for 1991.

BLACKBIRD CONTROL

Question: What progress have you made on controlling cattail habitat in order to reduce desirable blackbird nesting and roosting grounds?

Answer: ADC is working closely with the National Sunflower Association, North Dakota Department of Agriculture, Game and Fish Department, Fish and Wildlife Service, and the Denver Wildlife Research Center to provide a comprehensive and effective cattail management program for North and South Dakota. The cattail management program plan has been formulated, and operational control to reduce cattails is scheduled to begin during July and August 1991. Primary emphasis will be placed on chemical treatment of selected, privately-owned, cattail-choked wetlands to reduce blackbird habitat and concentrations adjacent to sunflower fields that historically have suffered severe blackbird damage.

Chemical treatment on cattails is most effective between July 15 through August 15. Currently, ADC plans to treat approximately 1,200 acres in North and South Dakota during that summer period.

Question: How much money will you spend on blackbird control in 1992 and how does that compare with 1991?

Answer: The ADC program is spending $753,000 on blackbird control during FY 1991. This includes $285,000 used for blackbird control in six southern States, along with $368,000 for hazing, and $100,000 for cattail management in North and South Dakota. We anticipate providing an approximate 20 percent reduction in funding for blackbird control in FY 1992 to a level of $600,000.

SCREWWORM

I note that you have recently declared Mexico screwworm free.

Question: In light of this accomplishment, what will the focus of the screwworm funds now be?

Answer: The goal of the screwworm program is the eradication of this pest to the Isthmus of Panama near the Darien Gap; therefore, the focus will now move from Mexico to Central America.

Question: Will there be efforts to eradicate screwworm further south?

Answer: The effort to eradicate screwworm will continue south until a permanent sustainable barrier can be established at the Darien Gap in Panama. That location is both technically and financially superior to any other location in Central America or Mexico due to its geographic location and size.

Question: If the program were only to maintain Mexico's new screwworm-free status, would there be a reduction in the amount of money needed? If so, how much?

Answer: No. We are currently dispersing flies in Belize and Guatemala, which are the two countries that border Mexico. Based on communications with the Government of Guatemala they will in all likelihood, not allow a permanent barrier to be established in that country. Therefore, the minimum program that would maintain Mexico free of screwworm would require a barrier being established in the geographical areas of El Salvador and Honduras.

BIOLOGICAL CONTROL

You propose an increase of $2,203,000 for biological control and a decrease of $2,400,000 for the Russian wheat aphid program indicating that the Russian wheat aphid program will be funded under biological control.

Question: Please provide the funding levels for programs under the biological control program including the Russian wheat aphid and leafy spurge for 1990, 1991, and 1992.

Answer: Funding for the biocontrol projects for FY 1990, FY 1991, and FY 1992, are as follows:

Project	FY 1990	FY 1991	FY 1992
Biocontrol line-item:			
Alfalfa weevil	$250	$165	$105
Colorado potato beetle	750	445	469
Diffuse & spotted Knapweed	500	487	515
Euonymous scale	0	250	365
European corn borer	650	578	713
Institute	500	944	732 *
Leafy spurge	1,500	1,800	1,800
Sweet potato whitefly	0	275	450
Russian wheat aphid	1,332	0	2,400
Subtotal.....	5,482	4,944	7,549
Russian wheat aphid line-item:	898	2,400	0
Total.....	$6,380	$7,344	$7,549

* The role and the exact funding level of the Institute are still under development. If a change occurs, we will provide a revised amount which may also impact on other programs.

AFRICANIZED HONEY BEE

You have eliminated funding for the Africanized honey bee, admitting the fact that you were unable to create a border to prevent the bee from reaching this country.

Question: Have you eradicated the first five pioneer swarms captured in the United States?

Answer: The first Africanized honey bee pioneer swarm was detected and destroyed in the United States, near Hidalgo, Texas. The additional pioneer swarms have not yet arrived. They are expected, however, sometime in FY 1991 in which case they will be eradicated. APHIS will work with the Texas A&M University and affected States to conduct detection and delimiting surveys for the next four naturally migrating pioneer swarms.

Question: Are there additional swarms here?

Answer: No, we know of no additional Africanized honey bee swarms in the United States.

Question: What do you see as the result of having this bee in the country?

Answer: Although physiologically similar, Africanized honey bees defend their nests more vigorously than do U.S. honey bees. As

a result, beekeepers can expect to have problems managing their current honey bee colonies if the Africanized honey bee becomes established here. Commercial beekeepers would have to change their current management practices if they are to maintain acceptable honey bee colonies.

Question: What are the dangers and risks, and how big are they?

Answer: There is reason to believe that the U.S. honey bee industry will experience a decline in the total number of managed honey bee colonies available, honey production and pollination services. U.S. crop producers who depend on honey bee pollination could be seriously affected if pollination services are disrupted. Education of beekeepers will help them to adapt to the Africanized honey bee and may help them to keep their hives in production.

Africanized honey bees are more aggressive in defending their hives than their European counterpart, but if left alone or undisturbed these bees should pose no major concerns to the public. However, sensational publicity about the Africanized honey bee could cause people to become excited and afraid of all honey bees. General fear of honey bees could lead to public hostility towards beekeepers, further disrupting honey production and honey bee pollination services.

BOLL WEEVIL

Question: What are the funding levels for the various boll weevil programs for 1990, 1991 and 1992.

Answer: The information follows:

	1990	1991	1992
High Plains	$724	$651	$668
Southwest	2,471	1,860	479
Southeast	9,575	10,624	10,057
Total	$12,770	$13,135	$11,204

Question: How much money was borrowed from the CCC for this program?

Answer: APHIS borrowed $6.2 million in 1989 to be used in the Southeastern eradication program.

Question: For what purpose was this money borrowed?

Answer: The Southeastern Boll Weevil Eradication Foundation experienced significant financial difficulties in 1989. The loan of $6.2 million enabled them to remain financially solvent.

Question: How much has been repaid?

Answer: The Foundation repaid $500,000 of the CCC loan in September 1990, in accordance with an agreed upon repayment schedule with APHIS.

Question: When will the remainder be repaid?

Answer: The Foundation is scheduled to repay $1 million in August 1991; $2 million in August 1992; and the remaining $2.7 million in May 1993.

CATTLE TICKS

Question: What progress has been made on the program in Puerto Rico?

Answer: The program underwent a major expansion during FY 1990, into areas devastated by Hurricane Hugo. This has resulted in coverage of nearly 90 percent of the island with over 86 percent of livestock premises (46,492 of a possible 54,092) currently under eradication activity. Over 28,000 premises are considered free of cattle fever ticks as of the end of FY 1990, a decrease of 33 percent from the end of FY 1989. This decrease is a direct result of Hurricane Hugo which struck the island during the last quarter of FY 1989.

In addition to the 28,000 premises designated free of the cattle fever tick (Boophilus microplus) as of the end of FY 1990, another 6,000 have completed treatment requirements. There have been no active infestations of the tropical bont tick (Amblyomma variegatum) on the main island since 1986. The tropical bont tick was eliminated from the island municipality of Culebra in 1988.

Question: Is eradication the goal?

Answer: Yes, the goal is to eradicate cattle fever ticks from Puerto Rico.

Question: What are the funding levels of the cattle tick programs in Texas and Puerto Rico for 1990, 1991, and 1992?

Answer: [The information is as follows:]

CATTLE TICK PROGRAM FUNDING, FY 1990 - 1992
(Dollars in Thousands)

	FY 1990	FY 1991	FY 1992
Texas	$4,516	$4,133	$4,468
Puerto Rico	11,540	12,864	10,825
APHIS	(1,940)	(2,039)	(0)
FNS	(9,600)	(10,825)*	(10,825)**
Total	16,056	16,997	15,293

* Transferred to APHIS from FNS
** Proposed for transfer to APHIS from FNS

NOXIOUS WEEDS

Question: Please show the types of weeds and funding available for noxious weeds for 1989, 1990, and 1991.

Answer: (The information follows:)

NOXIOUS WEEDS FUNDING
(Dollars in Thousands)

	FY 1990	FY 1991	FY 1992	
Common Crupina	$450	$530	$0	
Goatsrue	170	170	0	(1)
Hydrilla	100	100	100	
Orobanche ramosa	43	110	0	
Salsola Vermiculata	10	40	0	
Inspection Activities	25	35	10	(2)
Survey activities	46	96	451	(3)
Total	$844	$1,081	$561	

(1) - In FY 1992, Federal participation in the goatsrue will no longer be required. States will continue activities and we expect eradication by 2000.

(2) - Although we plan to complete the Noxious Weeds Inspection Guide in FY 1991, we will need $10,000 in FY 1992 to maintain the Inspection Guide program.

(3) - This amount will fund detection and delimiting surveys on noxious weeds that have been reported in the United States. It will also fund studies to estimate the extent and potential distribution of these weeds.

Since much of this work will not be conducted in FY 1991, we now need to survey a larger area because the various weeds have continued to spread. Therefore, this amount exceeds last year's estimate for the work. In FY 1991, we will conduct surveys on only wild red rice.

USER FEES

I understand that you have issued proposed regulations on levying user fees for agricultural quarantine purposes, and that the deadline for commenting on them was yesterday, March 14, 1991.

Question: Can you tell me at this point how many comments you received and what the nature of the comments is?

Answer: As of March 14, 1991, we received 60 comments on the proposed APHIS user fee regulations. About one-third of the commenters requested that the comment period be extended. Other selected major concerns of the commenters are as follows: the proliferation of Federal user fees, the inconsistency of the APHIS user fees with the General Agreement of Tariffs and Trade (GATT), the use of 31 U.S.C 9701 without prior Congressional consent, the fee amounts, discrimination against Hawaii, and the implementation date.

Question: How much money do you anticipate collecting for the remainder of fiscal year 1991?

Answer: Assuming an implementation date of May 15, 1991 we estimate collecting $25 million. Of the $25 million, approximately $11 million will go towards overtime and start-up costs, leaving $14 million as an initial reserve.

Question: What do you project to collect in 1992?

Answer: In FY 1992, APHIS expects to collect a total of $125.6 million in AQI user fees, of which $20.5 million will be held in reserve, and $3.1 million for administrative costs.

Question: Will all of the fees collected be available for APHIS' use?

Answer: No, if we collect from domestic passengers departing from Hawaii and Puerto Rico, estimated at $16.4 million annually, those will be credited to the general fund of the U.S. Treasury as miscellaneous receipts. APHIS would need a budget amendment to recover the costs associated with these inspections. The domestic passenger fee was included in the proposed regulations. Due to the number of comments opposed to this fee and subsequent guidance from Congress, we decided not to include it in the final regulations published in April. We plan to publish a separate docket shortly to implement the collection of domestic passenger user fees on August 1, 1991.

Question: If more fees are collected than are allowed by appropriations legislation, what happens to the surplus?

Answer: The APHIS user fee account is set up as a no-year fund. If more fees are collected in a given fiscal year than are allowed by appropriation legislation, the surplus is carried forward to the next fiscal year. The Food, Agriculture, Conservation, and Trade Act of 1990 authorizes APHIS to maintain a reasonable balance

in the account. A reserve will remain in the no-year user fee account to ensure that the Agency has access to three months of operating expenses in the event of carrier insolvency, fluctuations in international travel, bad debts, or economic downturns.

Question: Does it remain available for future use?

Answer: Surplus funds carried forward in no-year accounts are available to the Agency for future use.

ANIMAL DAMAGE CONTROL

Question: What amount of your budget is spent on non-lethal control methods? Please break it down by type of method, for what pest, and specify whether the funding is for research or actual control work.

Answer: APHIS' animal damage control (ADC) unit does not measure the dollar amount expended for lethal or non-lethal control in its operational program, but emphasizes the Integrated Pest Management (IPM) approach to solving wildlife conflicts. The IPM strategy used by ADC usually consists of a combination of several methods applied to each problem, and it is not possible to measure the separate contribution of each method to total effectiveness. Statistics are available on the current allocation of research funds among lethal and non-lethal methods.

In FY 1991, APHIS' Denver Wildlife Research Center (DWRC) has increased the portion of its allocation being invested in research on non-lethal management of vertebrate pests to $3.6 million. Of the $3.6 million, $2.2 million is being invested on research in bird pests; $900,000 on predators; and, $500,000 on non-predatory mammals. Studies on birds include: continued field evaluations of habitat manipulation as a method for reducing loss of sunflowers to blackbirds; resistance of sunflowers and corn varieties to bird damage; re-registration of Mesurol as a bird repellent; registration of grape flavoring and other potential new bird repellents; and conditioned taste aversion for reducing predation of endangered species' eggs by predatory birds.

Question: Please provide a five-year history on the success of the ADC program. Show the losses to agriculture from the pests that ADC controls.

Answer: The ADC program was transferred from the United States Department of the Interior (USDI) Fish and Wildlife Service (FWS) to the United States Department of Agriculture (USDA) APHIS 5 years ago. Since that time, the program has undergone significant expansion in response to increased needs for control of wildlife damage problems. Management under USDA has allowed the program to be more responsive to the needs of agriculture than was allowed under USDI administration. An example of increasing satisfaction with and support for ADC is illustrated by the growth of the cooperative programs in the eastern United States. Cooperative funding in ADC's Eastern Region has increased from zero, at the time of the transfer, to approximately $1.5 million in FY 1991, and there is widespread support for developing more cooperative programs. ADC

has expanded involvement in control of migratory bird depredation problems, protection of endangered species, protection of human health and safety, and beaver damage control.

ADC developed a Strategic Long Range Plan during this period, and significant aspects of the plan have already been implemented. A need for the increased public awareness of wildlife damage problems and the need for control was identified. ADC has increased efforts to meet this need, including the signing of an agreement with Utah State University to develop an academic program in wildlife damage management.

Also identified was a need for increased research into new, more socially-acceptable and effective control methods. Since the transfer, DWRC's forest animal damage research station in Olympia, Washington, has been reopened. A new research station has been established in Fargo, North Dakota, to study blackbird depredation problems, and in Starkeville, Mississippi, to study bird problems at aquaculture facilities.

ADC has also drafted the first programmatic Environmental Impact Statement (EIS) in the history of the program. The previous EIS for ADC dealt only with predator control programs in the western United States, whereas the new draft EIS addresses the entire spectrum of control activities undertaken by ADC.

The agriculture industry incurs significant economic losses caused by animal damage each year. According to available information, more than half of U. S. farmers experience animal damage losses. For example:

- Birds cause an estimated annual loss to U. S. agriculture of $100 million.

- Predators cause $60 million worth of losses in sheep and goats, and $20 million in calves in the 17 western states during one year.

- Beavers cause $100 million in damage annually, mostly by flooding roadways and timber.

- Prairie dogs, pocket gophers, raccoons, ground squirrels, and rats also cause substantial losses to agriculture by damaging rangeland, pastureland, timber resources, and field crops. In California alone, ground squirrels cause an estimated $30 million in damage annually.

Question: Can you demonstrate the effectiveness of the various control methods you use? For example, can you provide statistics as stated above for the various control methods?

Answer: Studies of effectiveness are available for most control methods in selected situations. For instance, a 1986 survey revealed that 82 percent of livestock producers who used guarding dogs considered the dogs to be an economic asset. A 1983 study of coyote den hunting in Wyoming revealed that the removal of adult and pup coyotes from dens reduced predation on sheep by 99 percent. A

1984 study in South Dakota revealed an 87 percent reduction in bird damage to corn when Avitrol baits were used. However, the IPM strategy used by ADC normally results in the application of several control methods simultaneously, and it is then not possible to ascertain the separate contribution of each method to total effectiveness.

An analysis of predator control effectiveness several years ago estimated that sheep loss to predators in the western United States amounted to $19 million annually with the ongoing ADC program, but would have been $50 million greater without control.

SCRAPIE

Question: Are you familiar with the scrapie program as recommended by the scrapie-negotiated rulemaking advisory committee?

Answer: Yes, APHIS was a participant in the negotiated rulemaking process.

Question: What was the make-up of this committee?

Answer: The Committee was comprised of representatives of the sheep industry, the U.S. Animal Health Association, the American Farm Bureau Federation, the American Meat Institute, the National Renderers Association, State livestock health officials, the research community, private practitioners, and APHIS.

Question: What is your view of the program?

Answer: We are quite enthusiastic about the program. The sheep industry and other interested parties were involved in developing the specifics of the plan, and as long as the program is supported by industry, we believe its chances for success are very good.

Question: What would be the cost for a year of implementing such a proposal -- both for the Federal Government and other sources?

Answer: We have developed preliminary cost estimates for such a program in consultation with the States and industry. During the first year, the total operational cost would be approximately $4.6 million; of this, $3.9 million would be Federal funds and $665,000 would come from State and industry sources.

Question: Of these amounts, how much is for indemnification?

Answer: Indemnification is not included in the costs just cited. Indemnification would add an additional $4 million to first-year program costs, according to industry's proposal.

QUESTION SUBMITTED BY SENATOR BUMPERS

FISH-KILLING BIRDS

Question: Many farmers in Arkansas have been concerned, and continue to call on me, about problems related to fish-killing birds and other birds, such as blackbirds, that destroy crops or present hazards to health. Can you offer suggestions to reduce the magnitude of this problem, whether it be through the development of new technologies or increasing the funding levels for the State operations?

Answer: We believe there is a definite need for new technology to deal with increasing bird problems in aquaculture. We also believe more effort needs to be focused on migratory bird problems in the agricultural and aquaculture industries. Additional needs include up-to-date information on bird population dynamics in order that sound decisions can be formulated which will result in both damage abatement and responsible management of these wildlife resources.

Federal funding of the Arkansas operational program at its present level is adequate unless future technology demands a greater expenditure. If and when additional funding for operations is indicated, we would expect State, county, or private funds to cost-share with APHIS-ADC as our policy encourages. At the present time, no funds are contributed to the program effort by Arkansas cooperators.

The APHIS Denver Wildlife Research Center (DWRC) is working hard to develop means to reduce bird depredations at catfish ponds in the Mississippi Delta region. Through this effort we are using new, alternative methods such as chemical repellents, electrical deterrents, and mechanical scare devices. This research program is directed at providing solutions to bird damage problems in aquaculture.

The DWRC also conducts research on methods to reduce crop damage caused by blackbirds. These efforts involve (1) bird repellent seed treatments for newly seeded rice; (2) data to support re-registration of the avian toxicant, DRC-1339; and (3) vegetation management to reduce roosting habitat of blackbirds damaging sunflowers in the north-central states.

These are multi-year studies that hold our best promise for success. They are proceeding as rapidly as can occur with present availability of staff, equipment, and facilities.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

ANIMAL DAMAGE CONTROL (ADC)

Question: You are requesting a reduction of $5,361,000 for ADC operations in FY 1992. Would you please be more specific in defining the ADC activities you plan to reduce or eliminate. Are you planning to reduce personnel or close any district or local ADC offices? If so, please identify each office and your justification for closing it.

Answer: Funding for the Western Region will be cut in FY 1992 by $3.5 million. In order to meet the reduction, the following will take place.

1. Eliminate the planned expansion of the Kansas program ($50,000).

2. Eliminate all contracted aerial hunting in the mountainous areas in the Western Region ($550,000).

3. Eliminate 70 Animal Damage Control Specialists (ADCS) throughout the Western United States ($2,900,000).

Most of the ADCS in the West are headquartered in their homes; therefore, no offices per se would be eliminated in the Western Region.

Funding in the Eastern Region will be reduced in FY 1992 by $1.8 million. We propose to eliminate all Federally funded direct control programs, and revert to a primarily technical assistance program. We would allocate $2,127,500 ($92,500 to each of the 23 State offices now in existence) to conduct technical assistance programs in the Eastern states. The remaining $468,999 would allow for a small staff in the Eastern Regional Office, and some funds for costs associated with the reduction in force actions required.

The following district offices will be closed.

Stuttgart, Arkansas
Simpson, Illinois
Louisville, Kentucky
Crowley, Louisiana
Bastrop, Louisiana
Grand Rapids, Minnesota
Stoneville, Mississippi
Montpelier, Vermont
Lebanon, Pennsylvania
Sandusky, Ohio
Knoxville, Tennessee
Jackson, Tennessee
Blacksburg, Virginia
Waupun, Wisconsin
Rhinelander, Wisconsin

Thirty-nine staff-years will be reduced in the Eastern Region.

Question: I'm told that the budget does not continue program funding for beavers, blackbirds, and fish-eating birds (cormorants, egrets and herons). As you know, Mississippi and other southern states have serious problems with all three of these species. I was under the impression that these were good programs. Would you care to comment?

Answer: The programs you have identified will be funded at a substantially lower level than in FY 1991. APHIS-ADC recently developed these programs in cooperation with State, county, and private organizations. These cooperators have acquired the necessary skills to manage ADC wildlife damage problems without operational assistance of APHIS-ADC. Limited technical assistance will continue.

ANIMAL WELFARE

I'm told APHIS has established a new and separate Regulatory Enforcement and Animal Care organization. Yet, the 1992 budget reduces animal welfare activities by $1.0 million. Your justification states that "routine inspections... will be reduced in frequency." Over the years, we have had numerous complaints about infrequent/insufficient inspections, but now you are going to reduce those further.

Question: Is my understanding of your plans correct?

Answer: APHIS is in a good position to efficiently handle the anticipated workload. During the past 5 years, we have seen a doubling of the animal welfare budget, from $4,836,000 in FY 1986 to $9,688,000 in FY 1991. The funding has been used to improve and strengthen the animal welfare program at both the headquarters and field levels. As a result, our field inspectors are better equipped and trained.

During FY 1990, APHIS devoted 170 staff-years to animal welfare activities whereas in FY 1986 we used 137 staff-years. We plan a further increase of six staff-years in the current fiscal year. With the Agency restructuring in place, a greater portion of our resources can now be devoted to inspection procedures. In addition, the staff that had been detailed to headquarters to evaluate the thousands of public comments in response to the regulations will now be available for inspection of animal facilities.

Question: How many times do you plan to inspect registered research facilities, licensed dealers, exhibitors, and carriers and handlers in FY 1992?

Answer: During 1992, we plan to inspect registered research facilities at least once per year as required. Additional inspections will be made in those having deficiencies. All dealers and exhibitors will also receive at least one inspection a year. Resources will be focused on deficient facilities.

Question: What increase in funding would be needed to make one additional inspection per year to each of these entities?

Answer: We estimate that it would cost approximately $5 million to increase the inspections of all facilities by one. If, for example, we average 1.4 inspections for each facility in FY 1991, we would need to be at the 2.5 level which would require increasing the number of inspectors by two-thirds.

Question: Does your 1992 budget include funding to cover the new requirements--drafting regulations, training, and enforcement--of 1.) the Improved Standards for Laboratory Animals amendments, 2.) the Pet Theft amendments to the Act, 3.) exotic animal auctions and 4.) farm animals used for research?

Answer: In regard to the first item mentioned, our proposal does include funding to cover laboratory animals under the Improved Standards for Laboratory Animals amendments. For the Pet Theft Act, we intend to perform enforcement to the extent possible within available funds. At present, the number of facilities is unknown, regulations are in the process of being drafted, and we do not have enforcement authority over the majority of the pounds covered under the Pet Theft Act. Thus, we are unable to affirm that funding in FY 1992 will be adequate until these issues are resolved. Regulations covering exotic animal auctions will be written in FY 1991, and training for the proper inspections will also begin in FY 1991. Lastly, the inspection of farm animals used in research is covered in our FY 1992 request as it does not entail additional sites to be inspected.

Question: Please explain the reversal of policy with respect to so-called "barrier facilities" that were inspected in past years but are not currently being inspected.

Answer: There has been no reversal of policy. We are working out specific requirements with individual entities as to what they require to allow our entry. It is our view that we should not jeopardize research by entry into certain laboratory housing areas without using proper precautions.

Question: Are all inspectors equipped with cameras?

Answer: All but the most recently hired persons have cameras. It is our intent that all persons who conduct inspections for animal welfare compliance have cameras.

Question: Do you plan to inspect the approximately 400 applications for Class A Dealer licenses now pending in the South Central Sector?

Answer: Yes, we do. In the State of Missouri alone, we have conducted 301 inspections for prelicensing during the period from October 1, 1990, through February 28, 1991. This exceeds the number in prior years.

BOLL WEEVIL

Question: The Department's recommended funding level for the boll weevil eradication program has been reduced from the 1991 level. Will the reduced level be adequate to meet the program objectives, including preparation for expansion into Northern Alabama, particularly when cotton acreage in the eradication area is expected to increase significantly due to reduced ARP levels and strong demand?

Answer: Funding at this level will be adequate to meet our program objectives if weevil populations are not unusually high in the current program due to warm weather during the Winter of 1991 and the Spring of 1992. If the Boll Weevil Environmental Impact Statement is completed in 1991, APHIS and the growers will decide whether to expand the eradication program in 1992 to include Northern Alabama, Eastern Tennessee and Northwestern Georgia. If the eradication program is expanded, survey trapping will be conducted in preparation for a limited diapause treatment program which will be conducted in the Fall of 1992.

Question: Several states have indicated interest in boll weevil eradication. Have APHIS personnel reviewed these requests, and is there sufficient research support to provide guidance to grower groups interested in the program?

Answer: Before APHIS can consider a State for inclusion in an expanded eradication program, it must have the necessary State legislation and positive grower referenda required for expansion of the boll weevil program. While there have been various parties interested in expansion, no State has as yet met these requirements. APHIS does not plan to decide whether to expand the program until the Environmental Impact Statement is completed in 1991. APHIS believes there is sufficient support to provide guidance to grower groups interested in the program.

Question: Are there any similar programs administered by APHIS that operate with "no year" funding?

Answer: Grasshopper control funds are allocated as no-year funds.

Question: Would a provision that the funds "be available until expended" make administration of the program more effective and efficient?

Answer: This provision could facilitate efficient administration of the program. Like grasshopper, boll weevil infestations and treatment costs are very difficult to predict. No-year funding would also allow for a more complete budget request. For example, diapause treatments are a major part of the boll weevil eradication program that extend through two fiscal years. These treatments begin in September and continue until late November or December. If funds were available after the close of the fiscal year, the Agency would be able to include the cost estimate for the entire activity in one budget request. This would provide a more complete picture of the costs of the program and provide greater

certainty that funding would be available for the entire activity. However, these advantages are outweighed by the seriousness of the Federal deficit. Such a provision would allow surplus funds to remain in the Agency rather than be returned to the Federal treasury, where they would offset the deficit. Therefore, we are not requesting this provision at this time.

BOLLWORM

Question: What level of funding is needed to fully equip the sterile moth rearing facility (at Phoenix, AZ) which has received significant financial support from growers?

Answer: Contributions of $1.2 million are required in FY 1992 and $594,000 in FY 1993 for equipment for the facility for sterile moth production equivalent to the FY 1990 level. The facility would be ready for production in FY 1993.

To equip the facility for production at a level high enough to support testing of new pink bollworm management technology, contributions of $2.9 million are needed for equipment in FY 1992 and another $3.7 million in FY 1993. Production at this level would be three times greater than production in FY 1990.

QUESTIONS SUBMITTED BY SENATOR KASTEN

PSEUDORABIES

Question: Wisconsin pork producers have raised questions about the status of the current pseudorabies program. Could you give me an idea of how this program is progressing?

Answer: Presently 48 States are enrolled in the 5-stage program. A total of 14 States and Puerto Rico are in Stage I (Preparation), 20 States are in Stage II (Control), 10 States are in Stage III (Mandatory Herd Cleanup), and 3 States are in Stage IV (Surveillance). All of North Carolina is in Stage III except for 13 counties remaining in Stage II. Goals are to have 15 States in Stage IV by the end of FY 1991. All States are expected to be free of pseudorabies in their domestic swine by the year 2000.

In order to qualify for admission to the program, States are required to have a pseudorabies eradication committee which includes swine producers among its membership. All 50 States have now established pseudorabies eradication committees composed of swine producers, animal scientists, State and Federal regulatory officials, and other representatives of the swine industry. States receiving Federal funding are required to submit a quarterly report of program activity to APHIS which provides basic data to State-Federal-Industry program managers. At the end of FY 1990, there were 6,490 known infected herds in the United States.

Question: Wisconsin pork producers have done an outstanding job cleaning up the problem in our State. I understand Wisconsin is in stage III of the program, is that correct?

Answer: That is correct.

Question: With the progress our producers are making, they are concerned about keeping our State free of new pseudorabies outbreaks. Can you tell me about APHIS' surveillance program?

Answer: State-Federal-Industry animal health leaders in each State determine the pseudorabies surveillance program which is followed each year. Surveillance may be on-the-farm by sampling all swine herds in a given area (termed down-the-road or area surveillance), at markets, or at slaughter. States are provided available APHIS funds for surveillance in accordance with the breeding swine population of each State. Presently, 28 States are participating in the slaughter surveillance program. The remaining States chose to use their surveillance funds to test samples collected at markets or from down-the-road (area) sampling. Our national goal is to monitor 10 percent of the breeding swine in each herd annually. During calendar year 1990, we achieved 64 percent of our national goal.

Question: Are adequate dollars provided in your budget for PRV surveillance?

Answer: Yes. During FY 1990, 4.3 percent of the nation's breeding swine were surveyed at markets and at slaughter. An additional 2.1 percent were surveyed on farms. The current budget of $6.55 million is expected to provide sufficient funding to permit achievement of the FY 1991 surveillance objectives.

Question: What are your cost estimates if you were to expand your surveillance program?

Answer: The greatest need to expand surveillance is in the State of Iowa which has 23 percent of all the breeding swine in the United States. Testing in 12 of 99 Iowa counties has disclosed that 45 percent of the herds are infected. It is estimated that $4.2 million would be required to find all infected herds in the State. The testing cost per herd is $150.

Question: I understand from pork producers that APHIS places an emphasis on slaughter surveillance, regardless of a State's incidence of PRV and the State's established area clean-up procedures. Why is that?

Answer: It is not true that APHIS places emphasis on slaughter surveillance regardless of a State's incidence of pseudorabies. Each State selects the pseudorabies surveillance program it wishes to follow based on its specific needs and the organization of its swine industry. Slaughter surveillance is discouraged by State-Federal-Industry program leaders as a surveillance tool in those States with a relatively high prevalence of pseudorabies and/or pseudorabies vaccination.

Currently, the five States/areas with the greatest prevalence of pseudorabies per 1,000 herds are Iowa, Southern Minnesota, Nebraska, Indiana, and North Carolina. None of these States/areas have chosen to utilize slaughter surveillance in their pseudorabies surveillance programs.

Many States with a low prevalence of pseudorabies are reported to be generally satisfied with slaughter surveillance. APHIS is determined to ensure that the most efficient and cost effective procedures are used to implement pseudorabies surveillance, whether at slaughter, in markets, or on farms.

ANIMAL DAMAGE CONTROL

The proposed cuts in APHIS-ADC would terminate many important services to Wisconsin landowners and foster negative attitudes toward wildlife.

It would cut the Wisconsin program by 75 percent.

In addition, the proposed cut will result in closing two APHIS offices in Wisconsin that serve our farmers.

Question: Why is APHIS-ADC cutting the Eastern Region and Wisconsin disproportionately compared to other regions in FY '92?

Answer: We are not cutting the Eastern Region disproportionately. Historically, funding for ADC operations has been allocated providing one-third to the Eastern Region and two-thirds to the Western Region. The proposed $5,361,000 cut in ADC operational funds translated into a $1.8 million reduction in the Eastern Region. This decrease equalled one-third of the proposed reduction.

To ensure that the funds available at this reduced level for FY 1992 are spent to benefit as much of the public as possible and are allocated equitably among the States, we are curtailing all Federally funded direct control programs and closing all district offices. This will put the Eastern Region in a primarily technical assistance mode with a State Director and supporting administrative assistance in each of the 23 currently established State offices.

Question: Why is APHIS-ADC proposing budget cuts that are in direct conflict with the alternative they recommended in the July 1990 draft EIS (Environmental Impact Statement) for the program?

Answer: The alternative in the draft EIS was only a proposal and not a final decision. We believe that the States have accumulated enough experience in controlling wildlife losses to assume a greater role in this regard. We propose to continue providing technical assistance to the States and the general public in order to assure that current control information and technology is widely disseminated. We believe that our proposed budget reduction for the ADC program will continue to provide an appropriate level of federal assistance in the control of wildlife losses to agricultural and natural resources.

QUESTIONS SUBMITTED BY SENATOR SPECTER

SALMONELLA ENTERITIDIS (SE) CONTROL PROGRAM

Question: I understand that in January representatives from APHIS, AMS, ARS, and CDC met to evaluate the SE control program. What results of this meeting can you share with this Subcommittee today?

Answer: On January 23, 1991, representatives from a number of USDA agencies, Food and Drug Administration (FDA), Center for Disease Control (CDC), and Office of Management and Budget (OMB) met to get an update on the SE situation and discuss future plans. The SE situation in humans, from both USDA and CDC perspectives, was described. Changes in the human situation from previous years, and, thus, the impact of control efforts, could not be reliably judged since all of the 1990 data were not in and there has not been enough time to assess trends.

APHIS presented a proposal for a Hazard Analysis Critical Control Points (HACCP) approach to SE control. The goal of the HACCP effort is to decrease the human risk of egg-associated SE by making incremental changes throughout the production-consumption system. APHIS recognizes that a key to success of a HACCP approach is a high degree of cooperation in terms of information sharing and role clarification among the various Federal agencies, States, industry, and consumers.

Preliminary research data on time and temperature, supporting the value of refrigeration in preventing growth of SE, were presented. Other issues discussed were SE-free feed, FSIS projects on bacterial control, FDA's proposed regulations, and surveys planned to estimate the prevalence of SE.

A more recent meeting of the SE Interagency Working Group took place on March 7, 1991. This meeting convened to discuss ongoing and future research, criteria by which to evaluate a successful control program, and plans and proposals by APHIS and FDA. A subcommittee was charged to develop program evaluation standards.

SALMONELLA ENTERITIDIS TASK FORCE

Question: Also, I understand that APHIS' SE Task Force has been working towards a long term, comprehensive measure to control SE. Would you please share these developments with the Subcommittee?

Answer: APHIS' SE Task Force favors a HACCP approach as a balanced, long term means of decreasing human risk. APHIS presented the HACCP proposal to the commercial egg industry on February 13, 1991, as well as at the interagency meetings discussed above (held on January 23, 1991, and March 7, 1991). The Task Force is now preparing an action plan, working closely with FSIS and others with expertise in HACCP, risk analysis, and the egg industry. HACCP relies heavily on the tools of systems analysis and risk analysis. The points in production, processing, distribution, preparation, and

consumption are studied with regard to where risk enters and can be controlled. Critical control points which can have an impact on the risk are selected and monitored.

HACCP is a balanced and attractive long term solution. Responsibility is dispersed throughout the system rather than being placed wholly on the producer or the consumer. Participation by producers is voluntary, focusing on market incentives and decreased liability, rather than on disincentives. Program implementation and success should be easier to achieve than with a mandatory testing program.

INDEMNIFICATION FOR SALMONELLA ENTERITIDIS POSITIVE FLOCKS

Question: Where does USDA stand on the issue of indemnification for producers who have SE positive flocks?

Answer: A Federally funded indemnity provision is not currently a USDA alternative.

Question: Since there have been programs in the past for disaster relief for producers of field crops, why not a similar program for producers of eggs and poultry?

Answer: The financial picture for producers with SE affected egg-laying flocks is one of reduced expected returns. Unlike disaster stricken producers of field crops, affected producers of eggs and poultry still have markets, albeit inferior, for their product.

Question: Are you aware of the various states' approaches to SE control?

Answer: We are aware of New York's proposed regulations for SE control, as well as efforts some other States have taken to deal with the problem. We applaud the steps that individual States take to protect their citizens, and expect that most such efforts should be complementary to APHIS' current trace-back program. States should carefully consider the impact of their actions on public health, their egg industry, their regulatory capabilities, and the price of eggs to consumers. We understand that both SE situations and egg industry structures can vary amongst States; thus, solutions need to be tailored to individual State needs.

Question: Has USDA considered a federal program that would require standard procedures so that procedures are uniform across jurisdictions?

Answer: Ideally, there will be uniform standards for testing for the presence of SE, as well as requirements for interstate movement of eggs. Widely divergent State programs could result in market disequilibrium.

Question: I understand that your responsibilities do not include agricultural research, but considering your knowledge of the issue, how much effort is being made on research for causes of SE and how to control it?

Answer: From APHIS' perspective, research efforts on the biology, epidemiology, and control of SE remain insufficient. ARS has reported an increase in their funding of research for SE control efforts to approximately $750,000 per year. APHIS is also in frequent contact with SE researchers in Pennsylvania, Maryland, Maine, and Massachusetts. The most critical pieces of information needed are the geographic distribution of SE, the dynamics of the organism in a layer flock, what differentiates "invasive" organisms, and tools for measuring the risk of contamination in eggs.

Several important projects are underway or being planned. Distribution of SE may be estimated from the liquid egg survey by APHIS and AMS. The upcoming National Spent Hen Survey by APHIS should provide a rough prevalence estimate. APHIS will also be funding applied research in diagnostic testing methods at two academic institutions in the coming months. Time-temperature studies are being conducted and funded by FDA, ARS, and AMS researchers. Molecular-level studies of invasiveness are being conducted by ARS and academic researchers. Cleaning and disinfection studies are ongoing at industry, extension, and academic research levels.

Question: How much of the public health problem resulting from SE is due to improper handling and preparation of eggs by the consumer?

Answer: A large proportion of outbreaks investigated by the SE Task Force indicated handling or preparation practices which could have contributed to the outbreak. Preliminary research data confirm that the natural antimicrobial properties of egg albumen, in conjunction with refrigeration temperatures and short storage times, will probably prevent SE from reaching an infective dose in eggs.

Practices such as pooling large numbers of eggs, allowing eggs to stand at room temperature for long periods, slow inventory turnover, using improperly sanitized utensils, and inadequate cooking, perpetuate the geometrical multiplication of the organism. These practices are seen much more frequently in food service settings where mass feeding events prepared by inexperienced food handlers can result in an outbreak if just one egg is contaminated with SE. This helps to explain why a preponderance of outbreaks occur in food service establishments. APHIS considers food handling in these settings to be a most important critical control point.

Question: Do we need more emphasis and funds to further educate the public on how to handle and prepare eggs?

Answer: APHIS supports emphasis on education of end users of eggs, both food service personnel and consumers, in the proper handling and preparation of eggs. However, we see this as only one of many important links in the egg safety chain. A balanced solution will require that the responsibility for the SE problem be borne by all, the producer, the intermediate handler, as well as the end user.

ANIMAL WELFARE ACT REGULATIONS

Question: After five years, USDA has issued its regulations based on the 1985 Animal Welfare Act. Can you justify for me the delay in crafting these regulations?

Answer: A primary factor was the sheer volume of public comments. All told, there were more than 35,000 comments received, which far exceeds the number ever received before by this Agency. These comments were from individuals with diverse views and had to be evaluated, categorized, and reviewed by a cadre of Veterinary Medical Officers. A second major factor was the complexity of the subject matter and the costs of implementation. The regulations dealt with entirely new concepts such as the psychological well-being of primates, and there were many conflicting viewpoints to consider. Also, it was necessary to repropose the regulations due to controversy. We were committed to having all groups participate. The draft proposal would have cost $1.75 billion to implement. The final regulations were estimated to cost the industry $537 million.

FEDERAL WHISTLE BLOWER PROVISIONS

Question: Wouldn't you agree that the federal whistle blower provisions are an effective tool in revealing illegal handling and treatment of animals?

Answer: Federal whistleblower provisions may be an effective tool in revealing illegal handling and treatment of animals, as it may be effective throughout government to bring about knowledge of fraud and waste when they truly exist.

CAROLINA BIOLOGICAL SUPPLY COMPANY

Question: How did USDA in the case of the Carolina Biological Supply Company handle evidence received illustrating such illegal treatment of animals?

Answer. USDA immediately conducted an inspection and investigation of Carolina Biological Supply when the matter was determined to be an alleged violation. The results of this inspection process and the investigation conducted are currently under Departmental review. Evidence from outside sources such as pictures or video tapes can be edited, altered, or changes made that would prevent them from being a legitimate source of evidence. The Department, however, uses material such as this to the extent it may be useful in a review. Affidavits taken by our investigators are part of the case being reviewed.

QUESTIONS SUBMITTED BY SENATOR BOND

AGREEMENT BETWEEN AMERICAN MEAT PACKING CORPORATION AND USDA (AMPAC)

Question: A state's PRV rating is based on the rate of infection in the state's breeding animals. The most cost effective way of obtaining a random blood sample is at slaughter time. Missouri has a very low number of plants killing sows and boars. More than 50% of Missouri's sows and boars are slaughtered at the AMPAC plant in Chicago. Unfortunately, there is no agreement in place that would allow this collection. If USDA could implement random sample collection at this plant it would provide an effective, economical, and timely method of determining Missouri's infection rate. Why is there no agreement between AMPAC and USDA?

Answer: Representatives from APHIS, the Illinois Department of Agriculture, and the National Pork Producers Council met with AMPAC representatives on January 21, 1991, to request permission to put two State employees in the plant to collect blood samples. AMPAC agreed to this request if the Government would absorb the cost for insurance to protect the firm against third-party liability. The concern over liability insurance has been resolved, and the Illinois Department of Agriculture has indicated that the agreement with AMPAC will probably be implemented during the month of May.

FEDERAL COOPERATIVE AGREEMENT CONTRACT REDUCTION

Question: The Federal Cooperative Agreement provides funds for laboratory technicians for the Brucellosis Laboratory in Missouri. In fiscal year 1990, the initial federal contract was for $50,821. For fiscal year 1991, the contract was reduced to $30,060, why the large reduction to such a vital program?

Answer: The laboratory funds actually allocated to Missouri in FY 1990 was $48,991 due to sequestration and the need to absorb Federal pay cost increases.

During the uncertainty of this year's budget process and to prepare for a possible sequestration, tentative plans were made to reduce all funding to 63.4 percent of the previous year's total. This resulted in Missouri's cooperative agreement being tentatively reduced to $31,060. After the appropriation bill was signed, sufficient funds became available to increase Missouri's laboratory funding to $48,991, the same amount as actually allotted in FY 1990. We are in the process of amending the cooperative agreement with Missouri to reflect this change.

FUNDS FOR PRV PROGRAMS

Question: Several have expressed concern on the amount of APHIS overhead for the PRV eradication effort. As a result, a 35% cap on administrative expenses was enacted with the 1990 Farm Bill. What is your current percentage of funds being used to support the administration of the PRV program?

Answer: Of the $6,554,000 appropriated to the pseudorabies program for FY 1991, approximately $956,000, or 14.6 percent, has been allocated for Agency and program support costs. Of this amount, $486,000, or 7.4 percent of the appropriation is being used for central program administration and/or services which includes Legislative and Public Affairs, Management and Budget, Office of the Administrator, Policy and Program Development, and Recruitment and Development. Another $469,000, or about 7.2 percent of the appropriation, has been allocated for Veterinary Services (VS) program support which includes the Office of the Deputy Administrator, headquarters technical staff support; and the four VS regional offices located at Scotia, New York; Tampa, Florida; Fort Worth, Texas; and Denver, Colorado.

Question: How does that compare to other programs?

Answer: It compares favorably. A recent Office of Inspector General study, nearing completion, compared four similar programs' expense categories, including administrative support costs, with funding allocation amounts comparable to the pseudorabies program for fiscal years 1988, 1989, and 1990. That study found that APHIS support costs were assessed against the pseudorabies program at approximately the same percentage or less compared with the other three programs. The draft report tentatively concludes that the allocations appear to be reasonable and were consistently applied to similar programs. State Departments of Agriculture that we cooperate with have overhead rates that range from 10 to 30 percent.

CORE FUNDING FOR ADMINISTRATIVE OVERHEAD

Question: Dr. Glosser, you have indicated your support in several farm publications with the concept of APHIS core funding for administrative overhead. Do you still support the core funding concept?

Answer: Yes, I still support the core funding concept. Our ability to respond to new demands and new opportunities is limited by the inflexibility of the current budget structure. Besides allowing us to be more responsive to emerging needs, a core funding mechanism for APHIS would ensure a high quality of emergency response while maintaining basic functions that we are responsible for regardless of circumstances. Core funding would provide separate resources for basic on-going activity - such as exclusion of pests and diseases, monitoring of plant and animal health, and emergency preparedness - rather than financing these from individual pest and disease line item programs. Activities with a specific termination point such as the costs associated with the eradication of a particular pest or disease could still receive separate funding. Core funding is not just for APHIS administrative overhead.

Question: Are there any efforts underway to develop a core funding mechanism for APHIS?

Answer: We have started some preliminary work on development of a core funding mechanism. Much more work needs to be done. We have had some discussions with industry groups. They will continue to be involved in the process as we develop a core funding mechanism.

LINE ITEM EXPENDITURE FOR SCREWWORM

Question: What are your current and future plans on line item expenditure for Screwworm?

Answer: The FY 1992 budget for the screwworm line item includes surveillance and quarantine activities in Mexico, Guatemala and Belize, and eradication activities in neighboring Honduras and El Salvador. We plan to include a line item for the screwworm program in the budget throughout the foreseeable future. The program goal is to eradicate screwworm from all of North America and Central America and maintain a permanent barrier at the Isthmus of Panama. That location is both technically and financially superior to any other location in Central America or Mexico due to its geographic location and size. At that time funding will still be required to maintain the barrier.

Question: Is the eradication of Screwworm from Mexico complete?

Answer: We are pleased to announce that Mexico was declared screwworm free at a ceremony held in Mexico on February 25, 1991.

Question: Can APHIS funding for Screwworm eradication in Mexico be diverted to the PRV program?

Answer: The eradication of screwworm from the United States and Mexico does not signify the end of the screwworm eradication program. Even if the program was to move no further south, there would still be the necessity to maintain surveillance, quarantine, and barrier activities in Mexico. As long as this pest is present in Central and South America, it will be a threat to North America. If funds were diverted from the Screwworm program for PRV, then Mexico, and ultimately the United States, would be increasingly vulnerable to future screwworm re-infestation.

FOOD SAFETY AND INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

HAZARD ANALYSIS AND CRITICAL CONTROL POINT SYSTEM (HACCP)

Question: Dr. Crawford, you have provided a summary of your proposal to implement the Hazard Analysis and Critical Control Points system. When will you begin the third phase of implementation and how long will it last?

Answer: The third stage of the HACCP study is in-plant testing, which should begin before the end of summer 1991. A peer review panel has reviewed the Agency's plans for evaluation of the HACCP study, the generic HACCP plans being developed, and the in-plant testing of the generic plans. The generic HACCP plans, developed by technical experts of the industry, will be tested in volunteer plants. In-plant Agency personnel will oversee the in-plant testing of the generic plans.

The in-plant testing phase and evaluation of the generic models developed for refrigerated foods, cooked sausage, and poultry (young chicken) slaughter will be completed by late 1992.

Question: Be specific as to where you will test the model HACCP plans.

Answer: In January 1991 we published in the Federal Register a request for volunteer plants for topics included in the HACCP study. We also stated we would finalize the evaluation plan and its criteria before committing volunteer plants to participate in the study. The evaluation criteria are being finalized following peer review and acceptance of the panel's recommendations for modifications to our draft Evaluation Plan. At this time we are unable to identify any volunteer plants to be included in the study's in-plant testing stage.

We intend to test the generic models in plants that represent differing levels of size and sophistication of operation. This type of in-plant testing will help ensure that HACCP programs will be equally acceptable for application in any size plant and without significant economic impact.

Question: What relationship does HACCP have to SIS?

Answer: There is no direct relationship between our HACCP program and any other inspection program of the Agency. HACCP programs, once developed, may utilize existing inspection tools, such as the Performance Based Inspection System, which assigns in-plant tasks to inspectors on a daily basis. HACCP plans will provide important science-based information for determining appropriate daily assignments for inspectors in plants.

The Agency has made efforts to modernize and increase the scientific basis for inspection programs for the past decade. A series of program changes and inspection tools have been

investigated or implemented during that time, including the Streamlined Inspection System. HACCP is part of this trend toward inspection modernization and is viewed internationally as the optimal tool for ensuring food safety.

POULTRY SLAUGHTER

Question: What are the results of your research in a poultry slaughtering plant in Puerto Rico on the spread of bacteria in birds?

Answer: The purpose of the FSIS studies in a poultry plant in Puerto Rico is to scientifically determine and precisely document how and to what extent bacteria are spread in a typical poultry plant, and then to explore techniques aimed at better controlling such spread. The ultimate intent is to extend the findings to the poultry industry.

Initially, a large number of samples were collected at critical points in the various phases of the production process, from the hatchery through to the cut up operation. These analyses serve as a data base from which to compare subsequent, ongoing studies. These studies involve various interventions at critical points to determine the most effective way to control bacteria. For example, we have looked at redirecting the flow of water in the scald tank, showering each bird as it exits the scald tank, adding different concentrations of chlorine to the chiller, feeding chicks "friendly" bacteria that will compete with and inhibit Salmonella and Campylobacter, and many other interventions.

Each time an intervention is studied, a new set of repeat data is collected at the critical points to compare with the base line data we initially collected in 1987. Repetition of the studies is necessary to increase confidence in the results. At this time, we have not completed the study, and we cannot release any results.

Question: When will these results be released?

Answer: The final step in a scientific study is to publish the findings in peer reviewed professional journals. FSIS is now in the process of preparing several articles for submission to scientific journals. We hope to see the first of the series of planned articles published within a year.

STREAMLINED INSPECTION SYSTEM FOR CATTLE

Question: Madame Secretary, last year we expressed considerable concern about the streamlined inspection system for cattle. I am surprised that neither your statement nor that of Dr. Crawford mentions SIS. We asked you to report to us in considerable detail of any plan for expanding SIS, or SIS pilots. What is the status of the Report?

Answer: A formal response by FSIS to the conclusions and recommendations of the National Academy of Sciences (NAS) is being prepared and should be completed soon. This response will be provided to Congress as soon as completed.

Question: When will we receive it?

Answer: We are working on the formal response now, and expect to have it completed shortly.

Question: What will it say?

Answer: FSIS will accept the NAS conclusions and recommendations, and will offer SIS-Cattle with a partial quality control program as a voluntary alternative to traditional inspection, as NAS recommended.

Question: We also stated that no expansion is to take place until after formal response to recommendations of the National Academy of Sciences and development of an implementation plan submitted to Congress for Review. Have you formally responded to the National Academy of Sciences? If not, when will you?

Answer: A formal response to the NAS report is being prepared by FSIS now, and should be completed and ready for distribution soon.

Question: When can we expect your implementation plan, and how much time will Congress be given to review it before it is implemented?

Answer: We have not yet prepared a schedule or plan for implementation of Cattle-SIS and we will not do so until we have responded to the NAS report. However we do intend to follow the language in the fiscal year 1991 Appropriations conference report and present our implementation plan to Congress once it is prepared. We would welcome comments from Congress at any time once the implementation plan has been presented.

Question: Do you have a schedule for proposing and finalizing regulations for SIS? If so, what is it?

Answer: The regulations will be developed and promulgated after the formal response to the NAS report has been completed. We do not, at this time, have a schedule established for this activity.

Question: Are you planning any expansion of pilot plants? When and where?

Answer: No expansion of pilot plants for SIS/PQC-Cattle is planned.

Question: Where are the five pilot plants and what is your experience so far?

Answer: The five pilot plants are located in Greeley, Colorado; Liberal, Kansas; Grand Island, Nebraska; Plainview, Texas; and Friona, Texas. Routine inspection activities by local

inspection personnel and periodic visits by headquarters personnel have consistently provided assurance that the product produced in these plants meets or exceeds FSIS standards for wholesomeness.

NUTRITION LABELING

Question: What is the status of nutrition labeling requirements for meat and poultry?

Answer: FSIS recognizes that food label reform is needed to provide better dietary information to consumers and has made a public commitment to this modernization effort. Our goal is to develop responsive and uniform labeling requirements that are appropriate for meat and poultry products. An advance notice of proposed rulemaking will be issued on April 2. Proposed rules will be published during the latter part of fiscal year 1991.

Question: Are you establishing mandatory requirements for all products or will some be voluntary?

Answer: The Agency intends to establish mandatory requirements for processed products and to issue voluntary guidelines for providing nutrition information on major retail cuts of important species of fresh meat and poultry.

Question: What is your time frame for implementing these requirements including proposing rules and implementing them?

Answer: FSIS will issue an advance notice of proposed rulemaking in the Federal Register on April 2, 1991. Proposed rules will be published as a single package in late fiscal year 1991. Final rules will be issued in 1992 with the aim of becoming effective in May 1993, so as to match the effective date of the Food and Drug Administration's nutrition labeling regulations.

Question: Under what authority is FSIS proposing requirements?

Answer: The authority to mandate nutritional labeling is found in the general rulemaking provisions of the Federal Meat Inspection Act (FMIA) and the Poultry Products Inspection Act (PPIA), 21 U.S.C. sections 621 and 463, respectively, and in the definition of "misbranded" in section 601 (n) (1), (6), (10), and (12) of the FMIA and section 453 (h) (1), (6), (10), and (12) of the PPIA.

Question: I understand that you are considering exemptions to mandatory requirements where it would be too costly, not practical, or not feasible. Could you give me examples of products or situations that fall under these types of exemptions?

Answer: Because the cost for a complete nutrient analysis can range from $450 to $700, the cumulative costs could possibly eliminate profits from sales for very small firms. Provision of nutritional information on small packages may not be practical if it is difficult to read while leaving space on the label for the

name of the product and other required information. Nutrient variability can present feasibility problems when products are not prepared in large enough quantities or frequency to consistently obtain material of comparable nutrient content.

STATE INSPECTION PROGRAMS

Question: Please provide the list of states with whom you have cooperative programs and the amount of grants going to each state.

Answer: Following are the fiscal year 1990 grants to States for cooperative meat and poultry inspection programs:

	Thousand Dollars
Alabama	$1,166
Alaska	329
Arizona	461
Delaware	303
Florida	1,917
Georgia	2,405
Hawaii	1,033
Illinois	3,827
Indiana	1,860
Iowa	946
Kansas	1,128
Louisiana	1,385
Maryland	926
Mississippi	893
Montana	241
New Mexico	345
North Carolina	2,562
Ohio	3,934
Oklahoma	1,607
South Carolina	941
South Dakota	327
Texas	4,168
Utah	623
Vermont	281
Virginia	1,294
West Virginia	443
Wisconsin	2,035
Wyoming	245
Total	$37,625

QUESTIONS SUBMITTED BY SENATOR BUMPERS

CODEX ALIMENTARIUS COMMISSION

Question: Dr. Crawford, I understand you provide leadership involving activities of the U.S. in support of the work of the joint FAO/WHO Codex Alimentarius Commission. Please describe these activities and give us your assessment of the benefits to the U.S. from the work of the commission.

Answer: The United States is a very strong supporter of Codex and FSIS is very much involved in this work. As the U.S. Coordinator for Codex activities, I work closely with my counterparts in FDA and EPA in managing and directing U.S. Codex activities. Two of Codex's more active Committees are chaired by the United States -- the Codex Committee on Residues of Veterinary Drugs in Foods, and the Codex Committee on Food Hygiene.

The Codex Committee on Residues of Veterinary Drugs in Foods was established in 1985. In the course of its brief existence, this Committee has made a significant positive impact on efforts to harmonize animal drug residue standards throughout the world.

There are currently 138 countries who are members of the Codex Alimentarius. Codex plays an important role in providing a forum for international scientific discussions which facilitate world trade in food, and is a major force in the reduction of trade barriers. The United States maintains a strong presence in these activities.

Question: Also, please explain any effect on potential benefits to the U.S. that may result due to the failure of the U.S. to pay its full assessed contribution to FAO.

Answer: To date, United States efforts to reduce trade barriers have not been jeopardized by failure to meet full FAO assessments. We are still considered a leader in the Codex arena.

Question: Could you please explain the role that the Codex Alimentarius Commission has or could play in helping resolve some of the stumbling blocks at the Uruguay round of the GATT?

Answer: The Codex Alimentarius has consistently provided representation at meetings of the GATT Working Group on Sanitary and Phytosanitary (S&P) Regulations and Barriers and has played an important role in the development of the current draft text negotiated in this group. This participation is important given the enhanced role of the Codex established in the draft S&P agreement. Specifically, the text provides incentives for countries to adopt Codex standards, when appropriate, and to use Codex standards as reference or starting points for scientific assessments of challenged food safety measures. The FAO recently

committed resources to better orient Codex for an enhanced international role. For example, in March, a joint conference was held with GATT, Codex, and WHO to discuss improvements to Codex operations that would allow Codex to better carry out the new international responsibilities envisioned in the draft S&P agreement.

QUESTIONS SUBMITTED BY SENATOR ADAMS

ORGANIC CERTIFICATION

Question: Section 2104 of the 1990 Farm bill directs the Secretary of Agriculture to establish an organic certification program for producers and handlers of agricultural products that have been produced using organic methods as provided for in Title XXI. What steps have the Department and FSIS taken to implement the Organic Foods Production Act?

Answer: The Department is proceeding to establish the National Organic Standards Board by the end of this year, and is planning to issue final regulations for the program by the October 1, 1993 deadline in the Organic Food Production Act.

FSIS is planning to hold joint information-gathering hearings in the near future with the Agricultural Marketing Service (AMS) on issues associated with meat, poultry, and egg products. These hearings will be in addition to the notice and comment hearings mandated in Section 2110(h) of the Farm Bill. The mandated hearings will not be held until the National Organic Standards Board has made its recommendations for additional standards.

The information-gathering hearings are intended to provide FSIS and AMS with necessary information on the best way to move forward with an organic program for products under comprehensive and mandatory food safety inspection programs, specifically, meat, poultry and eggs.

Question: Why is there no reference to this statutorily-mandated program in the Department's Fiscal Year 1992 budget presentation for FSIS?

Answer: FSIS does not need additional funding to carry out its part of the organic provisions, which involve holding hearings. The Agricultural Marketing Service which is the lead agency within USDA for carrying out the organic provisions, has requested $120,000 in fiscal year 1992 to establish the National Organic Standards Board.

Question: Section 2115 of the 1990 Farm bill directs the Secretary to establish and implement a program to accredit certification officials for the Organic Foods Act. Section 2119 directs the Secretary to establish a National Organic Standards Board to advise the Secretary on implementation of the Organic

Foods Production Act. What steps have the Department and FSIS taken to implement these provisions of the law?

Answer: A draft of the Charter for the National Organic Standards Board, and a draft Federal Register Notice seeking nominations for the Board are currently in the clearance process within the Department. Publication of the Notice is expected this spring. Planning for the accreditation of certification officials is underway. FSIS will continue to coordinate its activities with other departmental units in implementing the Act, although AMS is the lead agency for the Department.

Question: What level of funding will the Department and FSIS allocate to the implementation of these provisions in FY 1991?

Answer: In 1991, FSIS will use current staff to hold informational hearings, coordinate Agencywide planning efforts, and begin the development of draft regulations. The small costs to implement the Farm Bill will be absorbed within the Agency's current budget.

Question: What level of funding is the Administration seeking to implement these provisions in FY 1992

Answer: FSIS is seeking no additional funds for organic certification in fiscal year 1992. FSIS activities will involve holding information-gathering hearings and the mandated hearings, as well as moving forward with regulations.

AMS has included $120,000 in the Federal Advisory Committee Act Account of the President's 1992 budget to establish the National Organic Standards Board.

QUESTION SUBMITTED BY SENATOR KASTEN

PIZZA LABELING

Question: Mrs Smith, a few months ago my office participated in a pizza taste off to determine whether the cheese was real or imitation. The participants judged the pizza on appearance, texture and taste. REAL cheese received a higher score in all areas.

The issue of pizza Labeling has been hanging around in USDA for more than 10 years. You and I have talked about pizza labeling for the last two years. What administrative action is being taken on this issue?

Answer: The Food Safety and Inspection Service issued a proposed rule in 1983 to change the regulations governing the labeling and content of cheese pizzas with meat. After a thorough review of the comments and a determination that no change was necessary, the proposal was withdrawn and rulemaking proceedings were terminated. We have continued to follow policies pertaining to labeling of cheese substitutes and have been consistent in following established USDA regulations. We believe the current rules adequately address the issue of labeling the ingredients of meat pizzas, including the use of cheese substitutes.

AGRICULTURAL MARKETING SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

For each of the following rail transportation issues, please describe whether AMS is studying the matter and the results of any studies.

FORWARD BOOKING OF RAILCARS

Question: The effects of forward booking of rail transportation on agricultural shippers.

Answer: AMS has not issued a study on the effects of forward booking of rail shipments on agricultural shippers. However, the agency recently filed a statement in the case of National Grain and Feed Association v. Burlington Northern Railroad Company, et. al., in which the lawfulness of a railroad forward contracting plan was challenged before the Interstate Commerce Commission.

We did not object to the general principle of forward booking of rail transportation, but our statement does reflect opposition to the forward contracting plan in the cited case. This specific rail forward contracting plan was challenged because agency analysis had indicated that the plan could substantially and adversely affect grain car supply and grain marketing in the United States. Specifically, design and implementation of the program would allow the railroad to: (1) generate substantial information from the grain shipping community without making this information available to grain shippers, (2) increase the rates at which grain is shipped during high demand periods while maintaining the downward rate level protection offered under general tariff provisions, and (3) create institutional incentives to restrict the supply of grain cars.

IMPACT OF DENIAL OF PRIVATE RAILCAR ACCESS

Question: The effect that denial of private railcar access has on agricultural shippers.

Answer: AMS is not studying the effect of denial of private railcar access on agricultural shippers. The agency did, however, file comments on behalf of the Shippers Committee supporting freer access of private railcars in the ICC case Shippers Committee, OT-5 v. The Ann Arbor Railroad Company, et. al, which decided the rules under which private railcar owners could place their equipment on the nation's rail system. Consequently, we are aware of the implications of this decision for shippers.

As we stated in the above case, denial of private railcar access effectively relegates private cars to a residual status because these cars are used only when the demand for rail grain movement is high. New car investment over the past ten years has been mostly for private cars. Therefore, since the incentive for investment in private cars is reduced under these access rules, the eventual result will be diminished rail capacity for agricultural shippers.

IMPACT OF DECREASED RAIL COMPETITION

Question: The effects that lack of competition in the rail industry has on farmers, consumers and agricultural shippers.

Answer: Economic research has demonstrated that increases in transportation rates primarily affect farmers by decreasing local producer prices, thus lowering farm income. Some of the increase in transportation rates is also reflected in higher aggregate price levels to the consumer. AMS currently has a study underway to determine the extent of competition, both within the rail industry and from other modes, that railroads face in pricing the movement of agricultural products. To accomplish the analysis, we are preparing estimates of rail revenue and variable cost ratios for grain shipments in each state.

Question: The impacts of mergers and leveraged buyouts on the availability of rural rail transportation and the need for regulatory oversight.

Answer: AMS has not conducted a study on this issue.

RAIL CAPACITY

Question: The impact of limited railroad capacity on this country's ability to serve expanded export markets in the future.

Answer: AMS plans a study to measure the physical capacity of the U.S. rail, inland waterway, and port infrastructure to serve grain export markets. The planned study will quantify aggregate rail capacity for grain exports. The study will also specifically assess the capacity and constraints of several key export points, notably the Pacific Northwest ports and the Texas ports of Houston/Galveston.

SOUTH CAROLINA AGRIBUSINESS DEVELOPMENT CENTER

Question: What is the status of the South Carolina Agribusiness Development Center?

Answer: AMS has initiated an overall study to evaluate the need for new and/or expanded facilities to replace or augment the existing Columbia State Farmers' Market and for additional wholesale food facilities to serve the immediate area. We have also established a cooperative agreement with the South Carolina Department of Agriculture to support certain phases of this data collection. In addition, lists of wholesale firms operating in the State have been assembled in preparation for a general survey of the wholesale portion of the State's food industry.

Question: What is the full extent of AMS assistance to the Center?

Answer: AMS specialists are providing technical assistance to the South Carolina Department of Agriculture (SCDA) to support both the general study in South Carolina and interim modernization efforts. Some of this assistance predates the present project and

has included work throughout the State. For example, we have completed a cooperative study with the SCDA and Clemson University and published a report of the results entitled Feasibility of Establishing a Wholesale Farmers' Market in Upstate South Carolina. We have also provided engineering drawings and construction cost estimates for alternative facility layouts to the SCDA to effectively utilize the remaining undeveloped land at the present site of the Columbia State Farmers' Market. More recently, AMS specialists provided conceptual designs for a specialized truckers/wholesale building for this important marketing center.

MAINE REGIONAL TERMINAL MARKET

Question: What progress has been made on the Maine Regional Terminal Market?

Answer: AMS staff has met with State marketing officials to outline the project's scope and objectives. An agreement was reached to initially concentrate on identifying the facilities needed for first stage processing and assembly of Maine agricultural products. Subsequent phases of the project may include developing conceptual designs for distribution facilities to accommodate increased trade resulting from the United States-Canada Free Trade Agreement. In preparation for this latter phase of the project, specialists have assembled a tentative list of the wholesale food firms currently maintaining facilities in the State.

CHICAGO TERMINAL MARKET

Question: Has your study of the Chicago Terminal Market been completed?

Answer: Although the project is not yet completed, AMS staff has held planning meetings with Chicago city officials and industry representatives. Participants have defined an initial study area involving firms in or near the Fulton, South Water, and Randolph markets. Researchers have tentatively identified 514 food firms maintaining facilities in this study area. A series of draft cooperative agreements have been completed and are now being reviewed by potential study participants in Chicago. These agreements would support special technical studies involving site evaluation, alternative building design/renovation plans, special marketing facilities in Chicago for Illinois agricultural producers and the collection of supporting data. The project will focus on produce and meat firms, particularly in the concentrated marketing area in downtown Chicago.

RELEASE OF RESEARCH CONCLUSIONS TO INTERESTED PARTIES

Question: What actions is AMS taking to communicate its research conclusions to agricultural groups, the public, and other government agencies?

Answer: AMS uses five complementary methods to communicate wholesale market development project findings to interested groups and decision makers. This information can be used to improve the marketing system. The methods of communication are (1)

publications; (2) public presentations; (3) videos and news material; (4) technical assistance and (5) articles and speeches to industry and professional groups.

Publications provide a detailed outline of the findings of each study performed by the program and explain the basis on which such findings were developed during the course of the project. These publications are available to interested parties, study participants, the public and other government agencies.

At strategic milestones during each project, we brief participants, cooperators, and other interested parties on study findings and progress. These presentations include illustrations and, if appropriate, handouts. Federal, state, and local governments are often represented at these meetings.

We also prepare videos concerning the general program, training material to facilitate implementation efforts, and news clips about important events concerning wholesale market development. This material is available for loan to interested parties. Recent examples of such material include a briefing/training video concerning farmers' market design and development, and news clips concerning an international meeting of the Executive Council of the World Union of Wholesale Markets, which was jointly sponsored by AMS and the Maryland Food Center Authority.

We provide technical assistance to aid local efforts in developing new wholesale market facilities by holding meetings and by organizing special short term studies. Study results are publicly presented to interested parties.

AMS staff members frequently speak at professional, trade, and industry group meetings on subjects pertaining to the Wholesale Market Development Program. Topics include study findings on particular projects that may be of interest to the audience.

QUESTIONS SUBMITTED BY SENATOR KERREY

NATIONAL ORGANIC STANDARDS BOARD

Question: What is the Department of Agriculture's timetable on implementation of the Organic Certification Act?

Answer: The Department is proceeding to establish the National Organic Standards Board by the end of this fiscal year, and planning to implement the organic certification program by the October 1, 1993 deadline required by the Organic Food Production Act.

Question: Has the Department drafted a charter for the National Organic Standards Board?

Answer: A draft charter for the National Organic Standards Board is in the process of being cleared within the Department.

Question: Where in the implementation process of the Organic Certification Act are you?

Answer: In addition to finalizing the charter, AMS is preparing the criteria for nominations to the Board, with plans to publish the announcement in the Federal Register in mid-to-late April.

Question: Could you advise the Appropriations Committee when the National Organic Standards Board will be in place?

Answer: AMS is planning to have the Board in place in September 1991, with the first meeting in October 1991.

Question: Has the Department reallocated funds in the current year to provide support for the National Organic Standards Board?

Answer: Funding for the Board is not available in the current fiscal year.

Question: Is there money in the Federal Advisory Committee Act account of the President's 1992 Budget to support the National Organic Standards Board?

Answer: A request for $120,000 for the National Organic Standards Board has been included in the Federal Advisory Committee Act account of the President's 1992 budget.

Question: Could you tell the Appropriations Committee the projected money needs for the National Organic Standards Board in 1992?

Answer: The $120,000 funding that AMS has requested under the Federal Advisory Committee Act for fiscal year 1992 will be sufficient to cover travel and per diem expenses for the Board.

QUESTION SUBMITTED BY SENATOR KASTEN

FEDERAL MILK ORDERS

Question: Mr. Haley, I want to thank you for working with us in holding national hearings to reform the Minnesota-Wisconsin price series and Federal milk marketing orders. I was also very pleased that the first hearing was held in Eau Claire, WI.

Where is your agency with developing reforms for milk marketing orders as a result of the hearings? Is there any possibility of the agency developing some methods of reform before the January 1, 1992 deadline date?

Answer: The Department is now involved in a major review of the Federal milk order program. A 43-day hearing was held last fall to consider substantial changes in all 42 orders. The key issues were the appropriate level of the Class I differentials, the use of multiple base points for setting those differentials, the pricing of reconstituted milk, and the level of Class II prices. The hearing, which considered some 70 proposals, generated nearly 10,000 pages of testimony and about 3,000 pages of exhibits. Written briefs based on the hearing evidence are due on April 30.

With a hearing record of this size, AMS has a monumental task in analyzing the testimony and exhibits entered at the hearing. This is probably the most extensive review of the Federal milk order program ever undertaken, and a careful review of the hearing evidence is essential to a well-developed decision on these far-reaching proposals. Also, the formal rulemaking procedures that must be followed limit our ability to shorten the time necessary for changing the orders, if changes are deemed appropriate. Thus, it is very unlikely that all of the national hearing procedures can be completed by January 1, 1992, the date that Congress urged us to meet if possible.

It should be noted that the development of an alternative to the Minnesota-Wisconsin price was not a part of the national hearing. Instead it will be considered at a separate Federal order hearing in order to allow time for a study of alternative pricing mechanisms. In July 1990, the Department announced that it was undertaking such a study and invited proposals from the industry. In the recent Farm Bill, the Congress also mandated the development of alternative pricing methods. The study is currently in progress. By October 1, 1991, the Department will announce a hearing on this issue and make available the results of the study. It is possible that a new pricing mechanism could be in place by June 1992.

QUESTIONS SUBMITTED BY SENATOR SPECTER

KIWIFRUIT IMPORT REGULATIONS

Question: As you know, I long have been concerned with the inequity involved with the impact of marketing orders on imported fruit passing through the Philadelphia Ports. The interim final regulation that is soon to be implemented provides no notice of these new standards. As you know, the Administrative Procedure Act and common practice prescribes a 30 day notice period prior to enactment of such regulations. Such emergency implementation without notice denies exporters to the U.S. the opportunity to review the proposal, comment on it, and, where applicable, adjust packing and shipping schedules accordingly.

What justification do you apply to the Department's decision to deny exporters of kiwifruit to the United States the opportunity to review the proposed regulations?

Answer: Section 8e of the Agricultural Marketing Agreement Act of 1937 (AMAA) requires that whenever specified commodities are regulated under Federal marketing orders, imports of those commodities must meet the same or comparable grade, size, quality, and maturity requirements as are effective under the domestic order. The Food, Agriculture, Conservation and Trade (FACT) Act added kiwifruit to the list of commodities affected by Section 8e.

To comply with the AMAA, the Department published an interim final rule in the Federal Register on March 13, 1991, containing appropriate grade, size, quality, and maturity requirements for imported kiwifruit. The effective date of the interim final rule was March 17, 1991. The regulation affects only kiwifruit shipped

after March 16, 1991, so that fruit in transit would not be disadvantaged. As required by the FACT Act, the U.S. Trade Representative reviewed and concurred with the interim final rule.

We determined that giving preliminary notice prior to the rule taking effect was impractical. We also had good cause for not postponing the effective date of the action until 30 days after publication in the Federal Register. Kiwifruit is currently being imported into the United States, and additional supplies are expected in the near future. Kiwifruit produced in California under Marketing Order No. 920 is now being marketed, and must meet certain grade, size, quality, and maturity requirements. To be consistent with the AMAA, it was necessary for the rule to become effective as soon as possible, so that imported fruit would meet the same minimum requirements as that produced domestically.

The rulemaking is still proceeding. All affected parties have the opportunity to examine the rule and present their views. Written comments on the rule may be filed until April 12, 1991. In this way, we can meet the statutory requirement under the AMAA for regulation, while observing the requirements of the Administrative Procedure Act to provide for public input before making a final decision.

Question: Wouldn't you agree that such action by the United States could be construed to be counterproductive to the efforts of President Bush's Enterprise for the Americas Initiative that regulations be developed to foster economic growth and development of free trade agreements with Latin America?

Answer: Section 8e regulations are consistent with President Bush's initiatives to foster economic growth and development in Latin America. U.S. producers and those who export to the United States benefit from minimum quality requirements which help stimulate repeat purchases. By making quality products consistently available as demanded by U.S. consumers, profits to both domestic and foreign agricultural producers are enhanced.

FEDERAL GRAIN INSPECTION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

GRAIN INSPECTION DEFICIT

Question: I understand that the inspection programs are currently running a deficit such that you have to use retained earnings. What is the situation to date?

Answer: Ongoing inspection and weighing activities continue to decline. Grain inspected and weighed for export by FGIS declined during the first five months of fiscal year 1991 to 40.2 million metric tons, compared to 54.9 million metric tons for the same period in fiscal year 1990. This is a 26.8% reduction. Also, the number of inspections performed by FGIS declined from 87,781 to 67,950, a 22.6% reduction. Through February the Agency has lost $2.14 million.

Question: Do you know at this point whether you will furlough people, how many, and for how long?

No, we do not know at this point if furloughs will be necessary. They are probable, however. In an effort to avoid extensive furloughs, FGIS is currently consolidating field offices. Expenditures for travel, training, and equipment are being held to an absolute minimum.

Question: What about a reduction in force?

Reductions in force are under consideration at both Headquarters and field offices.

Question: What is the prospect for the future?

Indications are that U.S. grain inspection and weighing activities will remain relatively flat for the future. The Economic Research Service forecast for February 27, 1991, reflects exports for fiscal year 1991 to be 96.8 million metric tons compared to 114.3 for fiscal year 1990. Given a decrease of this size, FGIS will continue to monitor operating costs and adjust as necessary to meet the level of activity required.

SUBCOMMITTEE RECESS

Senator BURDICK. This concludes today's hearing. Our next hearing will be held next Friday, March 22, in this same room, at 10 a.m. The subcommittee will receive testimony from the Food and Nutrition Service, the Human, Nutrition and Information Service. The subcommittee will stand in recess until that time.

[Whereupon, at 11:20 a.m., Friday, March 15, the subcommittee was recessed, to reconvene at 10:05 a.m., Friday, March 22.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

FRIDAY, MARCH 22, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:05 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick and Kasten.

DEPARTMENT OF AGRICULTURE

STATEMENT OF CATHERINE BERTINI, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES

ACCOMPANIED BY DENNIS KAPLAN, BUDGET OFFICER

FOOD AND NUTRITION SERVICE

STATEMENT OF BETTY JO NELSEN, ADMINISTRATOR

HUMAN NUTRITION INFORMATION SERVICE

STATEMENT OF SUE ANN RITCHKO, ADMINISTRATOR

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on the fiscal year 1992 budget for Agriculture, Rural Development, and Related Agencies. We will review the budgets for the Food and Nutrition Service [FNS] and the Human Nutrition Information Service [HNIS].

Our witnesses are Catherine Bertini, Assistant Secretary, Food and Consumer Services; Betty Jo Nelsen, Administrator, Food and Nutrition Service; Sue Ann Ritchko, Administrator, Human Nutrition Information Service; and Dennis Kaplan, Budget Officer of the USDA. Welcome to you all.

As a broad overview, the budget for the Food and Nutrition Service is up by $4.8 billion. Of that increase, $4.1 billion is for the Food Stamp Program; $488 million is for Child Nutrition Programs; and $223 million is for the Women, Infants and Children Program. The Human Nutrition Information Service is requesting an increase of $2.7 million, or a 25.8-percent increase. We have statements from each of you, which will be made a part of the record in full.

Secretary Bertini, I will ask you to make your oral statement, summarizing the budget for each of the Agencies, after which we will entertain questions from the subcommittee for each of the Agencies.

Ms. BERTINI. Thank you, Mr. Chairman. I would like to introduce, as we begin, the people who you mentioned today. Betty Jo Nelsen, the Administrator of the Food and Nutrition Service; Sue Ann Ritchko, the Administrator of the Human Nutrition Information Service; also, Dennis Kaplan, who is with the Budget Office of the Department of Agriculture.

In addition, Mr. Chairman, I would like to take this time to introduce to you formally several other people who have joined us since we visited with you last year. These are all major people in the Department, and particularly in the Food and Nutrition Service, who are playing key roles in managing these programs.

Robert Washington is here with us; he is the Deputy Administrator of the Special Nutrition Programs; Phyllis Gault, who is the Deputy Administrator of the Food Stamp Program is also here; as is Jan Lilja, who is the Director of the Office of Analysis and Evaluation. Mr. Chairman, those are our new folks.

I would also like to give credit to our Budget Officer who has been with you for many years, and with us for many years as well, Jerry Boling, since this is his last appropriations hearing with the Senate. He will be retiring in the near future, and he has done a wonderful job for all of us.

We appreciate the opportunity to appear before you today to present the President's budget proposals for these two Agencies, FNS and HNIS, for fiscal year 1992. As you mentioned, the total appropriations requested has increased; the total is $29.9 billion. Human Nutrition Information Service requests $12.6 million, and the Food and Nutrition Service requests the balance.

HUMAN NUTRITION INFORMATION SERVICE

HNIS conducts important research on food consumption patterns and the nutrient content of the Nation's food supply, and the dietary status of Americans. In addition, this Agency also provides dietary guidance to the general public. HNIS requests an increase of $2.7 million over the 1991 current estimate of $9.9 million. This increase would provide $1.6 million to initiate the new responsibilities required in the National Nutrition Monitoring and Related Research Act of 1990.

It would provide $500,000 to double funds available for the Agency's continued role in the Department's pesticide data program. It would provide $266,000 for ongoing research programs in food consumption, food composition, and nutrition education research. In addition, the budget request would support a $365,000 increase in operating costs to support the ongoing activities of nutrition monitoring and education.

FOOD AND NUTRITION SERVICE

The Food and Nutrition Service, of course, provides food assistance to low-income people, helping them to achieve adequate and nutritious diets. We estimate, Mr. Chairman, that one out of every

six Americans is served through the 13 programs managed by the Food and Nutrition Service. The Agency also targets special groups such as pregnant and post partum women, infants and schoolchildren, native Americans, and the elderly, recognizing that these groups are at high nutritional risk.

This budget represents our firm commitment to fund benefits for low-income Americans and to carry out the administration's goals for the Agency. These goals include program integrity being improved, improved nutrition, improved welfare for children, and better program coordination. These goals have shaped the budget that we present here today.

The budget provides sufficient funding under current law to meet the expected increases for inflation and program participation. And the amount needed is markedly above the expectations that all of us had just 1 year ago. The mandatory accounts, especially the Food Stamp and Child Nutrition Programs, continue to grow.

The largest request, of course, is for the Food Stamp Program. We are requesting an appropriation of $22,149,975,000, including $2.5 billion to be placed in reserve pending an official budget request. The amount of this request is based on our best projections under current law and Governmentwide assumptions. We are again asking the committee's consideration for the kind of appropriations structure provided to such programs as AFDC and Medicaid.

Regarding the Special Supplemental Food Program for Women, Infants, and Children [WIC], the President has proposed a significant funding increase for this program which has been so consistently supported by this committee. For fiscal year 1992 our request totals $2.6 billion, compared to $2.4 billion appropriated for this fiscal year. This increase would cover inflation and support participation of about 200,000 additional women, infants, and children.

WIC's monthly participation levels would increase to nearly 4.9 million from the 4.7 million average projected for this year. This increase reflects a fundamental commitment of this administration to the welfare of children whose economic conditions may not provide the kind of nutrition needed for good health and normal growth.

For the Child Nutrition Programs, we are requesting a total of $6.1 billion. This projected funding will provide an overall increase in budget authority of $487 million above the current year. This increase is needed primarily because of the upward adjustments in reimbursement rates and the increase in the number of meals served in participating schools and institutions.

The increase also includes an estimate for new participants in the Child and Adult Care Food Program, resulting from new legislation that expands Head Start and support for child care, and an increase in School Breakfast Program participation relating to the startup grants recently authorized to encourage program participation.

In addition, we will be proposing legislation to redistribute current payments to provide significantly lower costs for lunches and breakfasts for the near-poor, and a small reduction in the subsidies to those above 185 percent of the poverty line.

This budget also includes funding for our other programs, including the Commodity Supplemental Food Program, the Food Distri-

bution Program on Indian Reservations, Nutrition Program for the Elderly, Commodities for Soup Kitchens, support for the Trust Territories in the Pacific, the Emergency Food Assistance Program, the Nutrition Assistance Program for Puerto Rico, the Special Milk Program, and of course, the Food Program Administration account.

PROGRAM INITIATIVES

A couple of comments, Mr. Chairman, I would like to make on a few of our initiatives in addition to the WIC initiative. We have high hopes for electronic benefit transfer use in the Food Stamp Program and other programs. We expect to improve the efficiency and security of cash management through the use of modern, electronic systems. We also expect to enhance the speed and convenience of benefit delivery. We expect to reduce the diversion of benefits to unauthorized or illegal purposes—all, we hope, without increasing administrative costs.

Because States want to use electronic benefit transfer systems as operational alternatives to coupons, and because through the farm bill of 1990 they may begin starting as early as April 1992, we are requesting additional staff resources of 10 staff-years and $500,000. Parallel to this effort, FNS is requesting 33 staff-years and $4 million to enhance our ability to move against food stamp retailer trafficking.

Mr. Chairman, one of the most troubling aspects of the current program is the conspiracy to discount food coupons for drugs and cash, redeeming them through cooperating grocery stores and thus depriving families of the food assistance they need.

With these funds, we intend to add additional personnel that will effectively expand current efforts at FNS to attack fraudulent redemption of food stamps and implement the new program integrity provisions of the 1990 farm bill. We will be working closely with the Office of the Inspector General to develop joint initiatives that will maximize the results from our limited resources.

FNS is also requesting an investment of $3.7 million to finance completion of accounting reports and to design integrated grant management and accounts receivable subsystems necessary to fully integrate our programs' accounts and correct problems identified by the General Accounting Office.

Finally, Mr. Chairman, we would like to thank the committee for its prompt consideration of supplemental food stamp funds for fiscal year 1991. We are grateful for the support and responsiveness of this committee and their approval of our request for supplemental funding. Mr. Chairman, I would hope that the full text of my remarks could be included in the record and I thank you. And we will be glad to answer questions that you may have.

PREPARED STATEMENTS

Senator BURDICK. Your statement will be made a part of the record. The statements of Mrs. Nelsen and Mrs. Ritchko will also be inserted in the record.

[The statements follow:]

STATEMENT OF CATHERINE BERTINI

Thank you, Mr. Chairman. I am Catherine Bertini, Assistant Secretary of Agriculture for Food and Consumer Services. Sue Ann Ritchko, Administrator for the Human Nutrition Information Service, and Betty Jo Nelsen, Administrator for the Food and Nutrition Service, are here with me today.

We appreciate this opportunity to appear before you to present the President's budget proposals for these two agencies for fiscal year 1992. The total appropriations requested for the upcoming fiscal year is $29.9 billion. The Human Nutrition Information Service is requesting $12.6 million and the Food and Nutrition Service is requesting the balance.

HUMAN NUTRITION INFORMATION SERVICE BUDGET REQUEST

The Human Nutrition Information Service conducts important research on food consumption patterns, the nutrient content of the national food supply, and the dietary status of Americans. In addition, the human Nutrition Information Service provides dietary guidance to the general public. This budget request includes initiatives to activities in food consumption assessment, food composition research, and dietary guidance, in accordance with Public Law 101–445, the National Nutrition Monitoring and Related Research Act of 1990.

The Human Nutrition Information Service budget request for fiscal year 1992 is for $12.6 million, an increase of $2.7 million over the 1991 current estimate of $9.9 million. The increase would:

—Provide $1.6 million to initiate the new responsibilities required in Public Law 101–445, the National Nutrition Monitoring and Related Research Act of 1990. This law directed an expansion of activities in food consumption assessment, food composition research, and dietary guidance in order to strengthen national nutrition monitoring and related research. As the lead agency for the Department of Agriculture in nutrition monitoring of the population, this law places new responsibilities upon the Human Nutrition Information Service. The most significant new responsibilities in terms of resources are for additional surveys of groups identified in the law, including preschool and school-age children, pregnant and lactating women, elderly individuals, low-income populations, blacks, Hispanics, Native Americans, the homeless, and military and institutionalized populations. The increase will provide for survey design and methodology research in order to best determine how to survey these high-risk groups and to enhance food composition research for survey nutrient databases.

—Provide $500,000 to double funds available for the Agency's continued role in the Department's Pesticide Data Program. As one of the four lead agencies, the Human Nutrition Information Service is establishing a Residue Exposure Assessment System which will provide data on the potential exposure of individuals to pesticide residues. The system will link data on pesticide residues found in selected agricultural products, as determined in a State-based monitoring program administered by the Agricultural Marketing Service (AMS), with data on the intake of those products by the U.S. population and population subgroups. The population groups are determined from the Human Nutrition Information Service's Nationwide Food Consumption Survey and the Continuing Survey of Food Intakes by Individuals.

—Provide $266,000 for ongoing research programs in food consumption, food composition, and nutrition education research. The increase will allow for increased support for expanding and improving use of USDA food consumption survey data by major users, conducting nutrition education research, and implementing the 1990 edition of the Dietary Guidelines for Americans with emphasis on high-risk groups.

—In addition, the budget request would support a $365,000 increase in operating costs to support the on-going activities of nutrition monitoring and education.

FOOD AND NUTRITION SERVICE

The Food and Nutrition Service provides food assistance to low-income people, helping them to achieve adequate and nutritious diets. We estimate that one out of every six Americans is served through the thirteen programs managed by the Food and Nutrition Service. In addition, the Agency targets special groups, such as pregnant and post-partum women, infants, school children, Native Americans and the elderly, recognizing that these groups are at high nutritional risk.

This budget request represents our firm commitment to fund benefits for low-income Americans and to carry out the Administration's goals for the Agency. These goals include: improved program integrity, improved nutrition, improved welfare of

children, and better program coordination. These goals have shaped the budget that I present here today.

Some of the key proposals for fiscal year 1992 that I will describe include: A major increase in funding for WIC; improved service to the poor in school meals; extended efforts for use of electronic benefits transfer technology; and an expanded effort, coordinated with the Office of the Inspector General, against food stamp trafficking.

In addition, this budget provides sufficient funding under current law to meet the expected increases for inflation and program participation; the amount needed is markedly above the expectations that all of us had just 1 year ago. The mandatory accounts, especially the Food Stamp and Child Nutrition Programs, continue to grow in response to the changing economic conditions of the country.

BUDGET OVERVIEW

For fiscal year 1992, the Food and Nutrition Service Budget request is $29.9 billion. This is an increase of about $2.3 billion above the fiscal year 1991 appropriated level. The most significant changes have occurred in the mandatory programs and are driven by the changes in economic assumptions.

FOOD STAMP PROGRAM

For the Food Stamp Program, we are requesting an appropriation of $22,149,975,000, including $2.5 billion to be placed in reserve pending an official budget request. The amount of this request is based on our best projections under current law and the following government-wide economic assumptions:

—The rate of unemployment is expected to hold steady in 1991, rising slightly to 6.7 percent in 1992 before declining in the out-years.

—Program participation is expected to establish new records rising to 22.4 million average monthly participants in 1992.

—Consistent with other economic indicators, the Thrifty Food Plan and the related maximum benefit (for a family of four) will yield an average monthly benefit of $67.21 per person.

We are again asking the Committee's consideration for the kind of appropriation structure provided to such programs as Aid to Families with Dependent Children and Medicaid.

Consistent with that approach, we are requesting one-fourth of the 1993 estimate in advance to assure a smooth transition from one fiscal year to another and providing, in effect, a calendar year basis for appropriations. By altering the timing of these appropriations in this manner, it is hoped that the need for supplemental appropriations can be reduced.

INCREASED COMMITMENT FOR WIC

This budget stresses the importance of early childhood intervention. The President has proposed a significant funding increase for the Special Supplemental Food Program for Women, Infants and Children (WIC) which has been so consistently supported by this Committee. For fiscal year 1992, the request totals $2.6 billion compared to $2.4 billion appropriated for this fiscal year. The increase would cover inflation and support participation of about 200,000 additional women, infants and children. WIC's average monthly participation would increase to nearly 4.9 million from the 4.7 million average projected for this year. This increase reflects a fundamental commitment to the welfare of children whose economic conditions may not provide the kind of nutrition needed for good health and normal growth.

CHILD NUTRITION PROGRAMS

For the Child Nutrition Programs, we are requesting a total of $6.1 billion for fiscal year 1992. These funds are required to meet the payments authorized under current law for subsidies to schools, family day care homes and child and adult care centers providing free, and reduced price lunches, breakfasts and snacks to eligible children.

The projected funding needs for fiscal year 1992 provide an overall increase in budget authority of $487 million above the current year. This increase is needed primarily because of the upward adjustments in reimbursement rates and increases in the number of meals served in participating schools and institutions. The increase also includes an estimate for new participants in the Child and Adult Care Food Program resulting from new legislation that expands Head Start and support for child care, and an increase in School Breakfast Program participation relating to start-up grants recently authorized to encourage program expansion. Further, we

are requesting $2.85 million in additional Federal Review funding in order to apply the review procedures to assisting child care centers in improving reporting and assuring that the funding is directed to eligible children.

The Department continues to support a change in the benefit payments in the school lunch and breakfast programs, and we will be proposing legislation to redistribute current payments to provide significantly lower costs for lunches and breakfasts for the near-poor and a small reduction in the subsidies to those above 185 percent of the poverty line.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

For fiscal year 1992, the President's Budget requests $85.4 million, an increase of $3 million above the current year. This amount will offset the costs of food price inflation and support a monthly caseload averaging 222,000 women, infants and children and 85,000 elderly.

FOOD DONATIONS PROGRAMS FOR SELECTED GROUPS

This appropriation supports the programs for the Food Distribution Program on Indian Reservations, Nutrition Program for the Elderly, Commodities for Soup Kitchens, the remaining support for the Trust Territories in the Pacific and certain disasters. The budget request is for $265 million, which will meet the commitments under current law.

EMERGENCY FOOD ASSISTANCE PROGRAM

The budget request for this program is $147 million, which includes $120 million for the purchase of commodities authorized by law, and $27 million to assist States with administrative expenses. We believe that a reduction in Federal administrative support is justified by the 80 percent decline in the value of commodities distributed through this program from more than $1.2 billion at the peak of farm surpluses to just $230 million this year. This administrative funding level will represent over 10 percent of the value of the commodities donated. As you may recall, administrative funding was originally provided at no more than 5 percent of the value of the commodities.

NUTRITION ASSISTANCE FOR PUERTO RICO

The budget request for this program is $1.013 billion, the amount authorized by the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT). We are requesting a separate appropriation for this program.

SPECIAL MILK PROGRAM

We are requesting a total of $23 million under current law for the support of increased costs and participation in the Special Milk Program.

FOOD PROGRAM ADMINISTRATION ACCOUNT

Critical to achievement of these objectives are the administrative funds of the Agency. For fiscal year 1992, we are requesting $113,856,000 compared to $96,778,000 last year. In addition to salary and related costs required by law, and funds to partially offset the cost of inflation, we are requesting $8.2 million in additional funds for three significant projects directed to improving the integrity with which program benefits are delivered.

IMPROVED PROGRAM INTEGRITY THROUGH ELECTRONIC BENEFITS TRANSFER

Through Electronic Benefits Transfer in the food assistance programs—principally the Food Stamp Program—and electronic payment systems for welfare program grantees, we expect to improve the efficiency and security of cash management through the use of modern electronic systems. These systems are being designed to enhance the speed and convenience of benefit delivery while reducing the diversion of benefits to unauthorized or illegal purposes without increasing administrative costs.

The Agency is currently conducting a series of demonstration and evaluation projects designed to answer questions about the Electronic Benefits Transfer system costs and impacts on recipients and retailers. FNS is drafting Food Stamp Program regulations to guide States that want to use Electronic Benefits Transfer systems as an operational alternative to coupons, starting in April 1992. These activities in-

volve substantial coordination across Federal agencies. Additional staff resources of 10 staff years and $500,000 are requested and will help ensure successful implementation of Electronic Benefits Transfer regulations, development of technical tools for State and Federal Agency use and expeditious review of State Electronic Benefits Transfer proposals.

FOOD STAMP INTEGRITY STRIKE FORCE

Parallel to this effort, FNS is requesting 33 staff years and $4 million to enhance our ability to move against Food Stamp retailer trafficking. Mr. Chairman, one of the most troubling aspects of the current program is the conspiracy to discount food coupons for drugs and cash, redeeming them through cooperating grocery stores and, thus, depriving families of the food assistance that they need.

With these funds, we intend to add additional personnel that will effectively expand current efforts in FNS to attack fraudulent redemption of food stamps and implement the new program integrity provisions of the FACT Act. We will be working closely with the Office of the Inspector General to develop joint initiatives that will maximize the results from our limited resources.

Overall, we estimate that of the 217,000 stores that are certified to accept food stamps, about 53,000 are selling ineligible items and more than 3,200 are discounting coupons for cash. With current resources, we were able to catch about 320 of those last year. Additional FNS staff, together with the Office of the Inspector General, will allow the Agency to develop new projects targeted at identifying major launderers and unauthorized, previously disqualified firms.

ACCOUNTING SYSTEM DEVELOPMENT

With the funds provided by this Committee, we have successfully installed a commercial core accounting system on the USDA computers. This is a system similar to the basic systems adopted by two other USDA agencies. FNS is requesting an investment of $3.7 million to finance completion of accounting reports and to design integrated, grants management, and accounts receivable subsystems necessary to fully integrate our program accounts and correct problems identified by the General Accounting Office.

SUPPLEMENTAL APPROPRIATIONS

We would like to thank the Committee for its prompt consideration of supplemental food stamp funds for fiscal year 1991. We are grateful for the support and responsiveness this Committee has shown to our request for supplemental funding.

Thank you, Mr. Chairman. I would be happy to answer any questions you, or other members of the committee, may have.

STATEMENT OF BETTY JO NELSEN

Thank you Mr. Chairman. It is again a pleasure to appear before this subcommittee to discuss the estimates for the Food Assistance programs administered by the U.S. department of Agriculture. Mr. Chairman, we appreciate the opportunity to discuss the budget proposed for the Food and Nutrition Service. This is the first budget that I have had the opportunity to shape since I arrived at the Food and Nutrition Service, and I am excited and pleased to forward the proposals that have developed.

AGENCY GOALS

Since coming to FNS, I have worked to instill a commitment to the Secretary of Agriculture's goals for the Food and Nutrition Service. These include: improved program integrity; improved nutrition; improved welfare of children; commitment to work force diversity; and better program coordination.

I have discussed these goals with all levels of staff in many kinds of settings. I believe that a complete understanding of our policies will contribute to improved productivity. These goals have shaped the budget that we are presenting here today. Some of the key proposals for fiscal year 1992 that I will describe include: A major increase in funding for WIC; improved service to the poor in school meals; an expanded effort, coordinated with the Office of the Inspector General, against food stamp trafficking; and extended efforts for use of electronic benefits transfer technology.

In addition, this budget provides sufficient funds under current law to meet the expected increases for inflation and program participation; the amount needed is

markedly above the expectations that all of us had just 1 year ago. The mandatory accounts, especially the Food Stamp and Child Nutrition Programs, continue to grow in response to the changing economic conditions of the country.

BUDGET OVERVIEW

For fiscal year 1992, the Food and Nutrition Service Budget request is $29.9 billion. This is an increase of about $2.3 billion above the fiscal year 1991 appropriated level. The most significant changes have occurred in the mandatory programs and are driven by the changes in economic assumptions.

FOOD STAMP PROGRAM

For the Food Stamp Program, we are requesting an appropriation of $22.1 billion, including $2.5 billion to be placed in reserve pending an official budget request. The amount of this request is based on our best projections under current law and the following government-wide economic assumptions: The rate of unemployment is expected to hold steady in 1991, rising slightly to 6.7 percent in 1992 before declining in the out-years; program participation is expected to establish new records rising to 22.4 million average monthly participants in 1992; and consistent with other economic indicators, the Thrifty Food Plan and the related maximum benefit (for a family of four) will yield an average monthly benefit of $67.21 per person.

We are again asking the Committee's consideration for the kind of appropriation structure provided to such programs as Aid to Families with Dependent Children and Medicaid.

Consistent with that approach, we are requesting one-fourth of the 1993 estimate in advance to assure a smooth transition from one fiscal year to another and providing, in effect, a calendar year basis for appropriations. By altering the timing of these appropriations in this manner, it is hoped that the need for supplemental appropriations can be reduced.

INCREASED COMMITMENT FOR WIC

This budget stresses the importance of early childhood intervention. The President has proposed a significant funding increase for the Special Supplemental Food Program for Women, Infants and Children (WIC) which has been so consistently supported by this Committee. For fiscal year 1992, the request totals $2.6 billion compared to $2.4 billion appropriated for this fiscal year. The increase would cover inflation and support participation of about 200,000 additional women, infants and children. WIC's average monthly participation would increase to nearly 4.9 million from the 4.7 million average projected for this year. This increase reflects a fundamental commitment to the welfare of children whose economic conditions may not provide the kind of nutrition needed for good health and normal growth.

CHILD NUTRITION PROGRAMS

For the Child Nutrition Programs, we are requesting a total of $6.1 billion for fiscal year 1992. These funds are required to meet the payments authorized under current law for subsidies to schools, family day care homes and child and adult care centers providing free, and reduced price lunches, breakfasts and snacks to eligible children.

The projected funding needs for fiscal year 1992 provide an overall increase in budget authority of $487 million above the current year. This increase is needed primarily because of the upward adjustments in reimbursement rates and increases in the number of meals served in participating schools and institutions. The increase also includes an estimate for new participants in the Child and Adult Care Food Program resulting from new legislation that expands Head Start and support for child care, and an increase in School Breakfast Program participation relating to start-up grants recently authorized to encourage program expansion. Further, we are requesting $2.85 million in additional Federal Review funding in order to apply the review procedures to assisting child care centers in improving reporting and assuring that the funding is directed to eligible children.

The Department continues to support a change in the benefit payments in the school lunch and breakfast programs, and we will be proposing legislation to redistribute current payments to provide significantly lower costs for lunches and breakfasts for the near-poor and a small reduction in the subsidies to those above 185 percent of the poverty line.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

For fiscal year 1992, the President's Budget requests $85.4 million, an increase of $3 million above the current year. This amount will offset the costs of food price inflation and support a monthly caseload averaging 222,000 women, infants and children and 85,000 elderly.

FOOD DONATIONS PROGRAMS FOR SELECTED GROUPS

This appropriation supports the programs for the Food Distribution Program on Indian Reservations, Nutrition Program for the Elderly, Commodities for Soup Kitchens, the remaining support for the Trust Territories in the Pacific and certain disasters. The budget request is for $265 million, which will meet the commitments under current law.

EMERGENCY FOOD ASSISTANCE PROGRAM

The budget request for this program is $147 million, which includes $120 million for the purchase of commodities authorized by law, and $27 million to assist States with administrative expenses. We believe that a reduction in Federal administrative support is justified by the 80 percent decline in the value of commodities distributed through this program from more than $1.2 billion at the peak of farm surpluses to just $230 million this year. This administrative funding level will represent over 10 percent of the value of the commodities donated. As you may recall, administrative funding was originally provided at no more than 5 percent of the value of the commodities.

NUTRITION ASSISTANCE FOR PUERTO RICO

The budget request for this program is $1.013 billion, the amount authorized by the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT). We are requesting a separate appropriation for this program.

SPECIAL MILK PROGRAM

We are requesting a total of $23 million under current law for the support of increased costs and participation in the Special Milk Program.

FOOD PROGRAM ADMINISTRATION ACCOUNT

Critical to achievement of these objectives are the administrative funds of the Agency. For fiscal year 1992, we are requesting $113,856,000 compared to $96,778,000 last year. In addition to salary and related costs required by law, and funds to partially offset the cost of inflation, we are requesting $8.2 million in additional funds for three significant projects directed to improving the integrity with which program benefits are delivered.

IMPROVED PROGRAM INTEGRITY THROUGH ELECTRONIC BENEFITS TRANSFER

Through Electronic Benefits Transfer in the food assistance programs—principally the Food Stamp Program—and electronic payment systems for welfare program grantees, we expect to improve the efficiency and security of cash management through the use of modern electronic systems. These systems are being designed to enhance the speed and convenience of benefit delivery while reducing the diversion of benefits to unauthorized or illegal purposes, without increasing administrative costs.

The Agency is currently conducting a series of demonstration and evaluation projects designed to answer questions about the Electronic Benefits Transfer system costs and impacts on recipients and retailers. FNS is drafting Food Stamp Program regulations to guide States that want to use Electronic Benefits Transfer systems as an operational alternative to coupons, starting in April 1992. These activities involve substantial coordination across Federal agencies. Additional staff resources of 10 staff years and $500,000 are requested and will help ensure successful implementation of Electronic Benefits Transfer regulations, development of technical tools for State and Federal Agency use and expeditious review of State Electronic Benefits Transfer proposals.

FOOD STAMP INTEGRITY STRIKE FORCE

Parallel to this effort, FNS is requesting 33 staff years and $4 million to enhance our ability to move against Food Stamp retailer trafficking. Mr. Chairman, one of

the most troubling aspects of the current program is the conspiracy to discount food coupons for drugs and cash, redeeming them through cooperating grocery stores and, thus, depriving families of the food assistance that they need.

With these funds, we intend to add personnel that will effectively expand current efforts in FNS to attack fraudulent redemption of food stamps and implement the new program integrity provisions of the FACT Act. We will be working closely with the Office of the Inspector General to develop joint initiatives that will maximize the results from our limited resources.

Overall, we estimate that of the 217,000 stores that are certified to accept food stamps, about 53,000 are selling ineligible items and more than 3,200 are discounting coupons for cash. With current resources, we were able to catch about 320 of those last year. Additional FNS staff, together with the Office of the Inspector General, will allow the Agency to develop new projects targeted at identifying major launderers and unauthorized, previously disqualified firms.

ACCOUNTING SYSTEM DEVELOPMENT

With the funds provided by this Committee, we have successfully installed a commercial core accounting system on the USDA computers. This is a system similar to the basic systems adopted by two other USDA agencies. FNS is requesting an investment of $3.7 million to finance completion of accounting reports and to design integrated, grants management, and accounts receivable subsystems necessary to fully integrate our program accounts and correct problems identified by the General Accounting Office.

SUPPLEMENTAL FOOD STAMP FUNDS

We would like to thank the Committee for its prompt consideration of supplemental food stamp funds for fiscal year 1991. We are grateful for the support and responsiveness this Committee has shown to our request for supplemental funding.

We take to heart the Committee's concern with the Department's estimates of food stamp participation and its suggestion that the Department review and revise the model it uses to estimate participation levels and budgetary needs. Our report to Congress last July examined the dramatic growth in participation between mid-fiscal year 1989 and mid-fiscal year 1990 and suggested that no one factor explains the growth; rather a host of factors are responsible, with three factors most prominent: the expansion of Medicaid, the increase in unemployment in certain States, and the legalization of undocumented aliens under the Immigration Reform and Control Act of 1986. This implies that groups that have not traditionally participated in the program are now applying for program benefits. In July, 1990 we updated our model to be more responsive to increases in participation. We are continuing our research on why participation is growing, expecting to issue another report later this spring, and we are continuing our assessment of alternative forecasting models that better capture the current participation growth.

At this time, our other programs are operating generally within the projections for fiscal year 1991 and the funding levels provided by the Committee.

That summarizes the budget of the Food and Nutrition Service. I will be happy to answer the Committee's questions.

STATEMENT OF SUE ANN RITCHKO

Mr. Chairman and Members of the Committee: I am Sue Ann Ritchko, Administrator of the Human Nutrition Information Service (HNIS). I am pleased to be here today to discuss HNIS's budget request for fiscal year 1992.

MISSION OF THE HUMAN NUTRITION INFORMATION SERVICE

The mission of the Agency is fourfold: (1) to collect, publish, and make available research on the nutrient content of foods; (2) to monitor and report on the patterns of food consumption by Americans and the nutritional adequacy of their diets; (3) to develop concepts and techniques for increasing the nutrition knowledge of professionals and consumers; and (4) to provide the policy basis for issuing Federal nutrition guidance to the American public. This research supports the Department's commitment to monitoring the dietary status of the population and to nutrition education. The importance of research in these areas was specifically emphasized by the Congress in the Food and Agriculture Act of 1977, the Agriculture and Food Act of 1981, the Food Security Act of 1985, and the National Nutrition Monitoring and Related Research Act of 1990.

HNIS has a total of about 89 scientists and support staff in two operating units: the Nutrition Monitoring Division and the Nutrition Education Division. The Nutrition Monitoring Division conducts national surveys to obtain information on food consumption by households and individuals and is the national resource for information on the nutritive value of foods. The Nutrition Education Division determines the factors which influence dietary status and conducts research to determine how guidance can best be communicated to the general public and to at-risk groups. Within the U.S. Department of Agriculture (USDA), HNIS has responsibility for the National Nutrition Monitoring System—a system of activities, primarily in USDA and the Department of Health and Human Services (DHHS), that are essential to providing timely information about the dietary and nutritional status of Americans and the factors that affect that status. HNIS also coordinates the development and publication of the Dietary Guidelines for Americans—another joint effort by USDA and DHHS.

FISCAL YEAR 1992 BUDGET REQUEST

The HNIS budget request for fiscal year 1992 is for $12.6 million, an increase of $2.7 million over the 1991 current estimate of $9.9 million. The budget request would:

1. Provide an additional $1.6 million to initiate the new responsibilities required in Public Law 101–445, the National Nutrition Monitoring and Related Research Act of 1990. This law directs an expansion of activities in food consumption assessment, food composition research, and dietary guidance in order to strengthen national nutrition monitoring and related research. As the lead agency for the Department of Agriculture in nutrition monitoring of the population, this law places new responsibilities upon HNIS. The most significant new responsibilities in terms of resources are for additional surveys of groups identified in the law, including preschool and school-age children, pregnant and lactating women, elderly individuals, low-income populations, blacks, Hispanics, Native Americans, the homeless, military and institutionalized populations. The increase will provide for survey design and methodology research in order to best determine how to survey these high-risk groups and to enhance food composition research for survey nutrient databases. Funds will also be used to provide for four (4) additional staff-years and to initiate a grants program for survey research.

2. Provide $500,000 to double funds available for the agency's continued role in the Department's Pesticide Data Program. As one of the four lead agencies, HNIS is establishing a Residue Exposure Assessment System which will provide data on the potential exposure of individuals to pesticide residues. The system will link data on pesticide residues found in selected agricultural products, as determined in a State-based monitoring program administered by the Agricultural Marketing Service (AMS), with data on the intake of those products by the U.S. population and population subgroups, as determined from HNIS's Nationwide Food Consumption Survey and the Continuing Survey of Food Intakes by Individuals (CSFII). Estimating potential exposure is dependent on the development of a Food Grouping System which will translate data on the amounts of the more than 5,000 food items consumed by individuals back to the agricultural products of which they are composed for linkage with the residue data provided by AMS.

3. Provide an additional $266,000 for ongoing research programs in food consumption, food composition, and nutrition education research. The increase will allow for increased support for expanding and improving use of USDA food consumption survey data by major users and conducting nutrition education research and implementing the 1990 edition of the Dietary Guidelines for Americans with emphasis on high-risk groups. Research programs will place major emphasis on data analysis for the 1989, 1990 and 1991 CSFII and its supplement—the Diet/Health Knowledge Survey; research to fill gaps in nutrient data needed for dietary assessments by USDA, Department of Health and Human Services, and the nutrition community; and research to provide the basis for an effective nutrition education/information program.

In addition, our budget requests an increase of $365,000 for increased pay costs and funds to support ongoing HNIS activities in the Nutrition Monitoring and Nutrition Education areas.

Nutrition Monitoring. The agency monitors the food and nutrient content of diets of the American population, and collects and publishes the most comprehensive data on the nutrient composition of foods. Major activities in progress include:

MAJOR ACTIVITIES

1. Implementing the requirements mandated in Public Law 101–445, the National Nutrition Monitoring and Related Research Act. The Department of Agriculture is committed to fulfilling the requirements of this legislation. We are working jointly with the Department of Health and Human Services which shares responsibility for Federal nutrition monitoring activities. Federal coordination of monitoring activities has been carried out primarily by the Interagency Committee on Nutrition Monitoring (ICNM), co-chaired by the Assistant Secretary for Food and Consumer Services, Ms. Catherine Bertini, and the DHHS Assistant Secretary for Health, Dr. James Mason. In accordance with Public Law 101–445, the functions and member Federal agencies of the ICNM are being incorporated into the Interagency Board for Nutrition Monitoring and Related Research, and the establishment of a nine-member National Nutrition Monitoring Advisory Council is in process. Upon designation of the members, the first meeting of the Council will be scheduled. The Board and the Council will provide advice in development and implementation of the ten-year coordinated National Nutrition Monitoring and Related Research Program which will be published in the Federal Register for public comment this fall.

In addition to implementing the nutrition monitoring legislation, coordination will continue with DHHS in other areas related to monitoring to assure that activities of the two Departments meet the needs of Congress and others for information on dietary and nutritional status of the population. A joint evaluation is being sponsored by DHHS and USDA to assess sampling and variable definition methodology of the Nationwide Food Consumption Survey and the third National Health and Nutrition Examination Survey. Recommendations from the evaluation will be reviewed for incorporation into planning and design for upcoming surveys.

2. The analysis of results and design reviews of the 1987–88 Nationwide Food Consumption Survey (NFCS). Results for the 1987–88 NFCS were made available on tape to users of the data both in the Federal and private sectors. Additional reporting includes publication of three popular chartbooks in graphic, easy to understand format, on "Diets of Americans," "Value of Food Used by Households," and "Eating Patterns." Analysis and evaluation of NFCS are addressing issues related to survey response. About 35 percent of the households drawn into the sample chose to participate. The impact of nonresponse upon integrity of the data for planned applications is being addressed through a variety of analyses and reviews. An independent expert panel has been convened to review survey design and execution with emphasis on implications of nonresponse. Their recommendations will guide users on appropriate applications of the data.

3. Monitoring and analyzing the ongoing Continuing Survey of Food Intakes by Individuals including the telephone follow-up survey—the Diet and Health Knowledge Survey that assesses consumer perceptions on diet/health and food safety issues. Activities include 1) maintaining technical support systems to assure data quality and 2) monitoring of the contractor responsible for interviewing and data coding. Emphasis is being placed on timeliness of data and contract monitoring. To enhance data handling and timeliness, an automated database system is being developed that will be used by the survey contractor. Status reports and technical questions between the contractor and HNIS can be relayed from the contractor and addressed almost immediately by HNIS. Contract monitoring to assure data quality focuses on the specific areas of sample selection, data collection, and data processing. Direct monitoring of the contractor through on-site visits and written and oral communication takes place on almost a daily basis.

4. The provision of annual estimates of the nutrient content of the national food supply. This series provides the only source of data on trends since 1909 in foods and nutrients available for consumption.

5. Assistance to users of USDA's nutrition monitoring data through workshops, research projects, and electronic communication mechanisms. A nutrition monitoring resources conference is planned for November 1991 to describe HNIS nutrition monitoring activities for novice as well as experienced data users. This conference will promote the use of survey data among the nutrition research community and give them information on how to use the data to meet their needs. At the workshop, a State-level data model will be introduced that has been developed to meet the needs of State health officials for State-level dietary status data. The model is designed to generate State-by-State estimates of dietary status.

A Nutrient Data Bank Electronic Bulletin Board is maintained to expand communications between HNIS and data users. It is accessed by personal computer and provides up-to-date information about HNIS nutrient data and survey data releases and other relevant topics. Usage of the bulletin board continues to increase with users representing nearly every State in the nation.

6. Continue development of the agency's role in the Department's Pesticide Data Program. As one of four agencies working on the Program, HNIS is responsible for development and implementation of a Pesticide Residue Exposure Assessment System. This system will use information on pesticide residues found in selected agricultural commodities as determined by the Agricultural Marketing Service with data on the intake of those products by the population from HNIS's comprehensive data base on food consumption in the United States. A Food Grouping System is being developed which will translate data from surveys on the amounts of more than 5,000 food items consumed by individuals back to the agricultural products of which they are composed for linkage with the residue data.

7. Maintain and continually update the National Nutrient Data Bank (NNDB) and the Survey Nutrient Data Base. The NNDB is the most comprehensive resource for nutrient composition of foods. Current analytical research on foods is focusing on the major contributors of fat, fatty acids, cholesterol and dietary fiber and for 26 nutrients in about 60 of the most frequently consumed foods as reported in USDA's food consumption surveys. The Survey Nutrient Data Base is specifically organized and maintained to analyze diets reported in both USDA and DHHS dietary surveys. An HNIS-National Center for Health Statistics (NCHS) interagency committee decides when food items should be added to the data base or when existing food descriptions should be modified.

8. Publication of the last two (of 21) sections of Agriculture Handbook No. 8 Composition of Foods, (Snacks and Sweets, and Baked Products). The "Pork Products" section completed in 1983 is being revised following a market basket study that shows closer fat trim at the retail level for fresh pork. Revision of the fresh pork section items will be reissued in the 3rd Annual Supplement which is in progress. This annual supplement is the vehicle for releasing new or updated food composition data as they become available to previously published sections.

Nutrition Education. The agency conducts an ongoing research program to assess the dietary status of Americans including the factors that influence dietary status and to determine the most effective methods and strategies for improving the dietary status of Americans. Major activities include:

1. Establishing and interpreting Dietary Guidance policy. USDA and DHHS jointly issued the third edition of the Dietary Guidelines for Americans in November 1990. The revision was based on recommendations of a Federal Advisory Committee of nine nutrition scientists and physicians. The new Guidelines continue the 7 central messages in the 1985 Guidelines but are more total-diet oriented, clearer, and more positive in presentation.

HNIS works cooperatively within the Department and with other groups to help ensure that consistent, accurate, understandable dietary guidance messages are given to the public. HNIS chairs the USDA's Dietary Guidance Working Group, comprising representatives from nine USDA agencies and a liaison member from DHHS. This group reviews all USDA guidance materials prior to publication to ensure that the Department "speaks with one voice" in expressing Federal nutrition policy. HNIS provides a liaison to the DHHS Nutrition Policy Board's Subcommittee on Dietary Guidance, the corresponding group at DHHS.

2. Assessing dietary status and the factors that influence dietary status. HNIS is working cooperatively with DHHS to implement a reporting system that integrates results from the National Nutrition Monitoring System components on the dietary and nutritional status of the U.S. population into common reports. Two reports have been sent to Congress. Planning is underway for the third report. Input on how the reports meet the needs of users is being sought from researchers, public health officials, State officials, and Congress. Input and suggestions from these groups will guide plans for the third report.

3. Developing dietary guidance materials and activities that are research-based and provide consumers with the practical information needed to put dietary guidance into practice. HNIS will continue its "Eating Right . . . the Dietary Guidelines Way" campaign, an ongoing nutrition education initiative designed to increase awareness of the Dietary Guidelines and to help people put them into action. Three successful major promotions have been completed. The third promotion featured results of USDA's Nationwide Food Consumption Surveys and Diet and Health Knowledge Survey as they relate to the new edition of the Dietary Guidelines for Americans. A fourth promotion will feature the release of a new food guide publication, "USDA's Eating Right Pyramid."

The Pyramid illustrates USDA's research-based food guidance system designed to help consumers use the Dietary Guidelines for Americans. The Pyramid, consumer tested during development, is presented in a graphic format that conveys a message of variety and moderation and serves as a guide to the relative amounts of different types of foods to include in a healthful diet. The publication and the Pyramid will

serve as the centerpiece of USDA's Eating Right Campaign. Outreach of the Campaign this year will focus on involvement of other groups and organizations, including the regional offices of our Food and Nutrition Service, to adapt and promote the Campaign components in their own nutrition education activities.

4. Researching and developing tools and techniques for communicating dietary guidance messages to special audiences. Results from a nutrition education research study to assess format and content of Dietary Guidelines for Americans print information for adults with low literacy skills are being used in development of a prototype booklet on the Dietary Guidelines specifically targeted to adults with low-literacy skills. In a joint collaboration with the Association for the Advancement of Health Education, HNIS is developing a health educators' teachers guide for junior and senior high school teachers based on the 1990 Dietary Guidelines for Americans. In another cooperative venture, HNIS and the National Institute on Aging are developing a series of Dietary Guidelines factsheets for Healthy Older Americans.

5. Developing and maintaining USDA's family food plans. HNIS develops USDA's family food plans. These plans represent the quantities of various food groups that would provide a nutritious diet at four different cost levels. The cost of food in the food plans is estimated and released monthly. The cost of food in the Thrifty Food Plan for the 4-person household, as required by the Food Stamp Act, is used by the Department in setting benefits for the Food Stamp Program.

In summary, HNIS is the national resource for information on the American food supply and the American diet. The Agency conducts research to determine how the American diet compares with current recommendations and conducts research to determine the best way to improve the American diet. We view these activities as basic to the Department's mission to assure that a safe, nutritious, wholesome supply of food is available to all Americans and to provide information that healthy Americans can use to select nutritious and healthful diets.

Mr. Chairman, I will be happy to answer any questions you or other Committee members may have.

WIC CASELOAD LEVELS

Senator BURDICK. Last year, as you will recall, several States had problems toward the end of the year due to lack of funds. These States were faced with reducing their caseloads. The problem was caused by an increase in food costs.

In our report for this year, we recommended the FNS consult regularly with State program directors so that they are informed of food price fluctuations, alternative food packaging items, and management guidance that will aid in maintaining participation.

What are you doing in this regard to avoid repetition of the problem? And this refers to the WIC Program.

Ms. BERTINI. Senator, we have undertaken several steps to try not to be in the situation in which we found ourselves last year. First of all, in terms of history, there were nine States that requested the authority to use some of their 1991 funds in order to help offset their caseload problems. We accommodated those States.

One of the things we did ourselves was to put together what we call an early warning system where we are working, as you suggested, with the States and we are also working very closely with the economists at USDA. We now have an early warning system for States to tell them when there may be changes made in food prices and other indicators that may affect WIC food packages.

In addition to that, we are providing a monthly report about these issues, participation rates, and package numbers to this committee and to the States.

Senator BURDICK. If news reports are accurate, and anybody in political life knows that is not always true, you are not doing your job. Recently, there was a report in the Washington Post saying

that Maryland will cut 9,300 women and children from the program because Federal funding has not kept pace with food prices and demand. How can this happen when we appropriated a 10-percent increase?

Ms. BERTINI. Senator, I am very glad you asked that question because it gives the opportunity to correct some of the inaccuracies and the misdirected, I think, words in that particular article that you referred to.

The situation in Maryland specifically is one where the Maryland WIC appropriation that was sent to them increased by 12 percent between 1990 and 1991. We estimate that the food inflation cost in Maryland over this period of time has been about 3 percent. Therefore, there should have been available in Maryland a 9-percent increase in WIC funds for WIC clients, which should have supported a corresponding increase in the number of clients that could be served.

In this particular case, we found that in several of Maryland's counties, the caseload management process was such that more people were put on the WIC rolls than actually there was enough funding to accommodate. There were more people on the rolls than the estimates suggested should have been included. As a result, when Maryland realized that caseloads were larger than what the budget had projected or could support, they had to make some accommodations in their caseload management system.

That is what happened; that is, in fact, the basis of the Washington Post story. But unfortunately, the spin on the story was that the Federal program was being cut, and nothing could be further from the truth.

Senator BURDICK. You may have partially answered this question, but I will ask it again. Are States experiencing a shortfall at this point? Or are they cutting caseloads or are any cuts expected? And if so, what States are involved and what are the reasons for the shortfall?

Ms. BERTINI. Mr. Chairman, we do not believe that States are cutting back in their WIC participation now. You can be sure after that Washington Post article was in the paper, based on our experience of last year, that we immediately reviewed each State's current status. We believe that our system was good to begin with, in that we have put together an early warning system that would indicate to us and to the States the potential need to reduce caseload.

But after that article, we again reviewed everything that was happening in the States and reaffirmed that the States are managing well within the dollars that they have available. We are not aware of any State other than Maryland which is cutting current caseload.

FOOD STAMP PROGRAM PARTICIPATION

Senator BURDICK. I note in your testimony that you are working on providing better forecasts of the food stamp cost, and you updated your model last July. But I wonder if you are making any progress in this regard. The committee has been concerned about the accuracy of your budget request for several years.

Your budget request for this year indicates you have not been able to make better estimates, since you reserve $2.5 billion and re-

quest "such sums as may be necessary" for unanticipated costs in fiscal year 1992. Is that a fair statement?

Ms. BERTINI. Part of it is fair, Mr. Chairman; part of it we would like to expand on, in terms of what we are doing in order to make our estimates as good as is possible, given the changing circumstances in the economy and in the States.

I have a few comments I would like to pass on, and then I would like to ask Mrs. Nelsen to add a few others. We have, as you know in the past, been relatively effective in terms of identifying potential increases, because our model was built primarily on economic indicators. And we had in the past been fairly good, we think, in being able to anticipate what was going to happen in food stamp client participation, based on the economy.

However, we were in a situation about 18 months ago where that was not the case, where our model was not working as it had in the past. We then had to review why the participation was increasing even though the economic indicators were not suggesting that such an increase would be occurring.

We did a study at that time, and that study showed us that there were three reasons why Food Stamp Program participation was increasing. One reason was changes in economic conditions. However, that was a lesser reason than the primary reason that we found, and that was the expansion in the Medicaid program. We found that when Medicaid expanded, which happened in several steps in the last few years, more people were brought into the system. These additional people who were eligible for Medicaid were also eligible for food stamps. And as a result, they participated in the Food Stamp Program as well.

A third reason for the increase was the children of illegal aliens, who are Americans when they are born here; they increased participation. Those are all some of the reasons why our past models have not been working as well. Last year, then, we put together a new model and we have been working with that since then. And I will ask Mrs. Nelsen to follow up and inform the committee about further actions on our part in this area.

Mrs. NELSEN. As the Assistant Secretary has noted, we have continued to work in this area and improve the model for forecasting. Regrettably, this business of economic projections is not an exact science, and we suffer along with professionals in the area in not being able to see the full ramification of events such as the Persian Gulf situation.

Nevertheless, please be assured that we are working to do all that is humanly possible to provide accurate projections of participation, Mr. Chairman, because we, like you, would like to know the direction this is taking.

We will have another report to the Congress based on the last year's activities, which you can expect to receive later this spring. In addition to that, to ensure that we are getting every possible amount of advice on the subject of our actual model, we have contracted with a firm which can provide an overview of what we are doing and make recommended changes to us. We are using them as objective critics of our system so that we can capture any advice they may have for us in this area.

Senator BURDICK. Will that report simply include information on what has happened or will it include an updated estimate of Food Stamp Program costs for 1991 and 1992?

Mrs. NELSEN. Our midsession update will include the projection for the remainder of this year and for next year. But we feel that the supplemental appropriation that was provided by the Congress in this new bill will be adequate to cover the costs of 1991 participation.

Senator BURDICK. When will we receive that report?

Mrs. NELSEN. The report will be available by June 30.

NUTRITION LABELING

Senator BURDICK. Mrs. Ritchko, what role does HNIS play in nutrition labeling, and what are your current activities in this area?

Mrs. RITCHKO. HNIS's role in nutrition labeling is to act as a resource for the Federal Food and Drug Administration [FDA], and also for the Department's Food Safety and Inspection Service [FSIS]. For example, our information on serving sizes is being used to determine the serving sizes that will be proposed by FDA, and that is the extent of our role in that particular activity.

Senator BURDICK. Did this group make any recommendations on labeling?

Mrs. RITCHKO. HNIS is not involved in making recommendations for nutrition labeling. We are a resource for information about the composition and consumption of foods. We are responsible for maintaining the National Nutrient Data Bank. The agencies that are involved in establishing nutrition labeling use our food composition data and information as a resource. They also use our food consumption data to determine the amount of food people consume, and that is one way our data are used, to determine the serving sizes.

Senator BURDICK. In other words, you gather some information that may be used, but the labeling itself you do not participate in?

Mrs. RITCHKO. That is correct. Within the U.S. Department of Agriculture, that responsibility resides within FSIS.

NATIONAL NUTRITION MONITORING AND RELATED RESEARCH ACT OF 1990

Senator BURDICK. Let me ask you this question. What requirements does the National Nutrition Monitoring and Related Research Act of 1990 contain? And what progress have you made in implementing them?

Ms. BERTINI. Mr. Chairman, the Nutrition Monitoring Act has several provisions. One of them is for an Advisory Council that will review current nutrition monitoring activities. There are requirements for nine members of this council, five to be appointed by the President and four by the House and Senate.

The administration's nominees are currently being reviewed at the White House. The Nutrition Monitoring Act also calls for an interagency, interdepartmental group that will be working on nutrition monitoring activities. We have convened the first meeting of this group. It is cochaired by Dr. James Mason, Assistant Secretary

of Health at the Department of Health and Human Services [HHS], and myself.

That group includes representatives of the Food and Drug Administration [FDA], Office of Disease Prevention and Health Promotion at HHS, of the Environmental Protection Agency [EPA], the Defense Department, the Agency for International Development [AID], FNS, and of course HNIS, who is the lead for USDA, and several other USDA and HHS agencies. This committee's role is severalfold.

And I would like to tell you, Mr. Chairman, that Dr. Mason and I take this role very seriously, because we believe there is much good work going on in the Federal Government in the area of nutrition monitoring. But it could be much better coordinated. And certainly that was part of the interest of the framers of this legislation when it was proposed on the Hill.

We are, for instance, looking at the different surveys to find out whether or not we can—technically speaking—have more survey complementarity. In effect, what that means is, could we ask some similar demographic questions the same way, so that we could have more cross-use of some of these surveys.

Another thing that is very important to us in this process is, are the surveys that are being done asking the questions that can be best used by our users. In other words, if EPA has needs, if FDA has needs, if FNS has needs from these surveys, are we best meeting those needs by the combination of surveys that are put together.

We think that these are some of the directives that we received as a result of the National Nutrition Monitoring and Related Research Act of 1990.

USDA–HHS COORDINATION

Senator BURDICK. How has USDA worked with the Department of Health and Human Services in this area?

Ms. BERTINI. We are working with HHS in many different ways. One of the ways is the development of a 10-year plan for nutrition monitoring, which, Mr. Chairman, was also part of the Nutrition Monitoring Act. Other coordination includes working with Dr. Mason, Assistant Secretary for Health, to have some research done by the Research Triangle Institute in North Carolina on some of these survey issues.

We are also working together on some of the other issues that I mentioned in the answer to my previous question. It is, I must tell you, sir, a cooperative, coordinated effort. And we are very pleased with the progress that we have made so far.

TEFAP ADMINISTRATIVE FUNDS

Senator BURDICK. You propose a decrease of $23 million for The Emergency Food Assistance Program [TEFAP] administrative cost, and base that on a reduced value of commodities distributed through the program. It seems to me there may not be a correlation between the value of the commodities and the cost associated with administering them.

The more likely correlation is between the amount of commodities and the administrative cost. What is the amount of commodities supplied through TEFAP during 1990, 1991, and 1992? I realize this calls for some figures, and if you cannot supply them, could you supply them later?

Ms. BERTINI. Yes, Mr. Chairman; we would be glad to supply for the record the actual volume of the commodities.

[The information follows:]

During fiscal year 1990, 412.2 million pounds of food were supplied to needy Americans through the Emergency Food Assistance Program. In 1991, an estimated total of 454.3 million pounds will be supplied; and we expect approximately the same level will be supplied in fiscal year 1992. This can be compared to over 1 billion pounds of commodities distributed in the peak year, fiscal year 1987.

Ms. BERTINI. Our proposal that you referred to does decrease administrative costs; however, our proposal keeps constant the actual dollar amount for food for the Emergency Food Assistance Program. The reason for the change in administrative cost, we think, is that initially when TEFAP was put into place, we were providing over 1 billion dollars' worth of food. And the $50 million was established to accommodate that volume.

Now we are at a level of 120 million dollars' worth of food purchased for TEFAP, and we thought that the higher administrative figure was not necessarily appropriate with the lower amount of food that was available. If $50 million was needed when there was over 1 billion dollars' worth of food, we did not think that amount was necessary with 120 million dollars' worth of food.

You may choose to disagree with us, Mr. Chairman, but that is the reasoning we used when we put our budget proposal together.

WIC PRIORITY SYSTEM

Senator BURDICK. There is a request in the President's budget requiring language concerning the increase in funding over the 1991 level, first to be used for the eligible, nonparticipating pregnant women and infants, and then for eligible 1- and 2-year-old children. This is a priority system already in use. Why is the bill language necessary?

Ms. BERTINI. Mr. Chairman, I would like to ask Administrator Nelsen to answer.

Mrs. NELSEN. I want to assure you, Mr. Chairman, in the WIC Program, that we believe the priority system which is in place in our regulations is one that is very important. It has stood the test of time, and we will continue to support that priority.

However, the language that we are suggesting is that within that eligible children category of 1- to 5-year-olds, after we have looked at the priorities, such as medical risk or dietary risk for children, that we subcategorize that effort and set a priority for younger children, 1- and 2-year-olds, as opposed to older children, 3- and 4-year-olds. We think that there are other services provided to older children that may deal with the children's problems and get those youngsters into health care systems. We think the 1- and 2-year-olds are particularly vulnerable.

So within the existing priority system, let me re-emphasize, we do not intend at all to disturb that. We simply say as we look at children in that broad category, after looking at their risk factor,

we would pay special effort to get the younger children into the program.

Senator BURDICK. Do they not do that now?

Mrs. NELSEN. No; there is nothing about the age of child participants after you get past infants. The children are grouped as children, and the priority is simply whether they are at medical risk or dietary risk. So there is nothing about age.

WIC APPROPRIATION LANGUAGE

Senator BURDICK. Would the language that I referred to change the basis for distributing funds to the States?

Mrs. NELSEN. That appropriation language was an error. The explanatory notes that we sent up after the budget came over point out that that was a mistake in the original submission. So the explanatory notes point out that the budget is not accurate. I would refer you to those.

DISTRIBUTION OF WIC FUNDS TO STATES

Senator BURDICK. How are the funds distributed?

Mrs. NELSEN. The funds are distributed to States for food costs on the basis of a funding formula; administrative funds are allocated among States for costs for nutrition services and administration associated with the program. All of the funds in the 1992 budget proposal will be distributed exactly as they were in 1991 and 1990, through a formula that was developed through the early stages of the program and that addresses the numbers of eligible people and the rate of participation in the State.

And Mr. Chairman, that was a formula that was arrived at by consensus among the States and the program operators and the Federal Government. It was a very difficult formula to come to, and we have no intention of tampering with that formula for distribution of funds.

Senator BURDICK. Did North Dakota give you some advice?

Mrs. NELSEN. North Dakota always offers advice. [Laughter.]

Senator BURDICK. Senator Kasten.

MILK SUPPORT PRICE AMENDMENT

Senator KASTEN. Mr. Chairman, thank you. I would like to ask Ms. Bertini. As you may know, we have been working in this committee, and I personally have been a strong supporter of the WIC Program. The program is a proven success story, and you have got strong bipartisan support for it here. And I personally have been very supportive.

This week I supported an amendment which would provide some emergency help to dairy farmers in Wisconsin and across the Nation. The amendment could have saved 4,000 farmers from going out of business in Wisconsin alone. The farmers would have received about $1.25 more per hundredweight for their milk. This little bit of help would have gone a long way in assisting dairy farmers across the country.

Unfortunately, in the debate and after the amendment passed, some alleged that this amendment would have a negative impact on the WIC Program. These allegations were never substantiated

with facts, and while we provided an amendment that would hold the WIC Program harmless, the misconceptions led to the demise, I believe, of a good amendment.

I am disappointed; I think it is wrong that late last night the House did not accept the dairy amendment which would have provided a little temporary relief for our farmers. This is wrong and is disappointing, but we have got to deal with facts. We simply could not get the House of Representatives to go along with us last night. We might have another chance on another day.

But the most important thing to note, at least for me personally, is that I think it is wrong to pit farmers on the one hand against women, infants, and children on the other. And I want the record to clearly show that I will continue to fight for farmers, and also for women, infants and children.

WIC PROGRAM GROWTH

Now, I was pleased to see an increase of about $223 million in the WIC budget which the administration is requesting. Can you elaborate on the need for this increase, and how the additional incremental funds will be spent?

Ms. BERTINI. Yes, Senator; I would be delighted to. First of all, I want to tell you how proud we are, also, of this increase that the President has proposed. The $223 million increase in the President's budget is the largest that any President has ever proposed for the WIC Program. And we are very proud to be proposing it today.

The WIC Program, as you know and as you pointed out, serves a very vulnerable group of people and it is a very important program. This proposal that we have will extend the program to allow an additional 200,000 people to be able to be put on the WIC Program. And we are thrilled to be in that position.

The WIC Program has grown every year since its beginning. And outgoing Secretary Yeutter likes to point out that he cut the ribbon on the first WIC clinic in Kentucky in 1974, and it has grown every year since. And we are very proud to support it.

We are very committed, Senator, to doing everything we possibly can do in order to protect and increase the number of women, infants, and children on that program. And one of the weapons, Senator, that we have to do that is a Wisconsin native who is managing, as you know, our Food and Nutrition Service. She is doing a terrific job with that and with the WIC Program as well.

MILK SUPPORT PRICE AMENDMENT

Senator KASTEN. Were you involved in some of these estimates that were made over the last 48 hours about how the WIC Program could be influenced one way or the other with regard to the dairy amendment?

Ms. BERTINI. Yes, sir.

Senator KASTEN. It just did not make sense to some of us, that someone decides that the price is going to be only working one way. We have gone from $15 milk to $13 milk to $10.10 milk, and the price of retail has not changed. Your price that you are paying for milk for the WIC Program has not gone up over the last year or

so, or at least it has not gone up significantly. It has not gone down much for cheese at all.

I do not understand how you or OMB can on one day say it is going to be 50,000, and then the numbers went up last night to 135,000 people that might be kept out of the program because of so-called cost increases. I am not going to get into a debate with you about the problems, but I think it was clear to a number of us that we are going to come back and revisit this overall question. Because you cannot make assumptions with regard to prices that are not happening in the marketplace.

Have you seen dramatic changes in the price?

Ms. BERTINI. We have seen changes in some of our programs because, Senator, when the Department estimates that there will be an increase, and the Department did estimate an increase of 32 cents per gallon of milk, in this case, we then have to estimate the impact of this increase on our programs. If we know that a WIC participant has to pay that much more for her milk, then it will mean there are that many fewer WIC participants that we can serve.

Senator KASTEN. I understand that. But what I disagree with is your initial premise. What makes you think that there is going to be a change of 32 cents per gallon for milk? That was not a number that you developed; that was a number that somebody gave you. And they said if milk went up 32 cents, what would happen to your program.

Ms. BERTINI. That is correct.

Senator KASTEN. But the point is that milk would not go up 32 cents, probably, because milk did not go down 32 cents when we had $15 per hundredweight, then $13 per hundredweight, now $10.10 per hundredweight. And we have not seen the retail price go down. So they gave you that plug number and you had to do what you could do with it.

But the point is that the basic thrust of the amendment was that the price has not changed in retail to the degree that we had wanted it to change.

Ms. BERTINI. In fact, Senator, when we did our estimate for the impact of the amendment, including the provisions to hold the WIC Program harmless, it was based on a lower milk cost. We would be glad to provide you this detail for the record.

[The information follows:]

The amendment to hold WIC harmless would increase WIC funding if milk prices rose more than approximately 1 percent per quarter. However, because the Economic Research Service is predicting a decline in milk prices for the rest of calendar year 1991, and the decline would enable us to serve more participants, the amendment would not fully compensate for price increases due to the Leahy legislation.

For example, a gallon of fluid milk in the first quarter of 1991 cost $2.76. Absent the Leahy legislation, USDA expects prices to fall to $2.66 per gallon by the July-September quarter. The amendment would not provide additional funds to WIC until milk prices exceeded $2.81 per gallon. During fiscal year 1991, over $9 million in WIC funds would be required to fund milk price increases before the amendment would provide any additional funding. This translates into 250,000 food packages. Because the shortfall would occur in the later part of the fiscal year, it would require reducing caseloads by 50,000 to 100,000 participants even with the hold harmless amendment.

And so our assumptions in terms of how many people we would be able to serve were based in part on the lower milk cost.

If, in fact, then the price of milk increases, and the economists at the Department of Agriculture predicted that it would, then, of course, we see the related change in terms of the WIC Program.

FOOD STAMP PROGRAM PARTICIPATION

Senator KASTEN. Let me ask you a question about food stamps if I could. You point out that there has been, or you notice that there has been an increase in the Food Stamp Program. Can you explain why that is so, and what measures is USDA taking to take care of that increase? And do you anticipate that your budget will handle the proposed increases?

Ms. BERTINI. Yes, Senator; initially we did a study last year when we learned that the increases in participation we observed were ones that we could not predict. The study showed us that the first reason for the increases was increases in Medicaid participation. People who are coming to sign up for Medicaid are also eligible for food stamps and had not before participated in the program.

Another reason for the increase was changing economic conditions, and the third was the children of illegal aliens born in the United States. Those three factors were what our survey showed. In addition, of course, there are additional economic concerns now that end up causing increases in the Food Stamp Program.

What we are doing, in terms of management at USDA, is to try to look to areas where there is a particular management and administration concern with the increase in caseload. Some counties, for instance, report to us that there are many more people coming to apply for food stamps, and that their current resources have a hard time keeping up with more people.

So as a result, we held a meeting just last week where we invited local and State food stamp administrators to come in and talk to us about some of the things that could be changed in current administrative procedures in order to help accommodate these increased caseloads in areas where they have dramatically increased.

So we are trying to be very responsive to that concern as it relates to increased Food Stamp Program participation. Our role is to be sure that not only the resources are there, but the management is such that people in need can receive food stamps as soon as they request them and the proper eligibility determinations have been made.

Senator KASTEN. Are you satisfied that the budget request is consistent with what you have just said, or are you going to be back for a supplemental, which is the case often in some of these kinds of programs?

Ms. BERTINI. We have asked for, first of all, such sums as may be necessary because it is sometimes hard to anticipate the need. We have also asked for an additional $2.5 billion in order to accommodate some of those concerns. So we have given you our best budget estimate, but, as in fiscal year 1991, it is very possible that in fiscal year 1992 we will ask you for a supplemental.

And as I mentioned earlier, we do appreciate your prompt action on our supplemental appropriation for 1991.

TARGETING LOW-INCOME CHILDREN

Senator KASTEN. Betty Jo, we hear every day about the problems of low-income families with children. There is a lot being written particularly about the children as well as the low-income families.

Are the programs of the Food and Nutrition Service not designed to target and assist such children? And how are these children aided by the programs which you administer? And what could this committee do to more effectively target, or to work with you and target some of these children?

Mrs. NELSEN. Thank you, Senator. Many of the families and the households that are on the Food Stamp Program have children in them. And that provides the basic service and benefits to low-income families. But I should also point out that the Child and Adult Care Feeding Program, where youngsters are in day care or in Head Start, is our fastest growing program. And there are many children who are provided with lunch, dinner, and snacks through that Child Care Feeding Program.

The growth this year is projected to be 18 percent because of the action of the Congress last year in approving day care funds and more opportunities for young people to be in day care.

The School Lunch Program is a stalwart help to low-income families. And we are pleased to see growth in the School Breakfast Program, as well as a continual support for the School Lunch Program. We have been doing some outreach to schools, encouraging them, especially in low-income areas, to initiate school breakfast programs.

And this year we will provide grants to 17 States, one of which is Wisconsin, to enable some schools to get into the business of providing breakfast.

The President's budget has a new initiative to target funding for low-income children, in that it would reduce the cost of the lunch and the breakfast for children between 130 and 185 percent of poverty. The cost of the school lunch would go from 40 to 15 cents, and the cost for a breakfast would go from 30 to 10 cents.

Right now, we estimate that 250,000 children could be brought into the program and participate if the prices were reduced. That is 10 percent of the estimated 2.5 million children out there who fall in that category of being eligible but who are not now participating. And we think that this is a meritorious program.

Senator KASTEN. Excuse me. You are serving only 10 percent of what you believe to be the eligible population?

Mrs. NELSEN. No; we are serving, I believe it is 50 percent.

Senator KASTEN. I misunderstand.

Mrs. NELSEN. No; we are serving one-half of the eligible children between 130 and 185 percent of poverty. But there are 2.5 million children out there who are not participating in that category. And we believe that we could increase participation conservatively by 10 percent; 250,000 youngsters would start to eat regularly in the School Lunch and Breakfast Programs, if they were available to them and if we lowered the rates as described in the President's budget.

Now, this is, we think, a very meritorious suggestion because it targets the funds to those most in need. But because we also recog-

nize the budget constraints of this time in our Nation's history, we realize that we have to have a pay-as-you-go budget.

And in order to fund this increased participation for these lower income children, we propose to reduce the subsidy for children from families above 185 percent of poverty by 6 cents a meal. The current subsidy is 14 cents, and that would take it down to 8 cents for each of those meals. We estimate that that would, in fact, reduce participation by some of those youngsters because the price would go up 6 cents. But we also think that they would not drop out of eating program-supported lunches entirely; they would eat them less often if they cost 6 cents more.

I still think, however, that even at the price of $1.30 for an average school lunch for those children whose families earn more than $24,000 a year for a family of four, that that probably is less than the cost of a movie ticket for a full week's lunches for a child in the School Lunch Program.

SCHOOLS' PARTICIPATION IN THE SCHOOL LUNCH PROGRAM

Senator KASTEN. Along that same line of questions, could you respond to the concerns that some of the school lunch providers, or the people that are in the school, that are in the school lunch business, the nutritionists and that whole group of people.

What they are concerned about is that if that price for the middle-income and higher-income person's lunch goes up, that they are going to end up by losing the whole School Lunch Program in that particular school. And when they come to see us, they will show us, here are half a dozen or 10 or 50 schools that a year ago had a School Lunch Program, that do not have a School Lunch Program now.

And they believe that the reason that School Lunch Program is no longer there is because the price went up for the middle-income group. Could you just work us through that a little bit and give us your response as to why that—I am assuming you do not want that to happen—why that should not happen?

Mrs. NELSEN. Well, first of all, for any change it is very hard to predict the outcome. And I think that the opponents of the President's proposal are putting the worst light on the situation. But when we look at the list of schools that dropped out of the program this year, it included several pages of schools that had dropped out. Generally they were very small schools serving a very few number of children, I noted.

But that was without any change in the Federal reimbursement. So I think that there is a continual reevaluation of every item in a school district's budget annually. And people make different decisions across the Nation, and oftentimes, it is not in response to the Federal Government's changes.

Having said that, we think that the school lunch is the best bargain around, and that a 6-cent increase due to this proposal would not force many children to stop eating lunch. Certainly they would not decide not to eat lunch at all over a 6-cent change in the meal.

We think it is more likely that the participation rate among those children whose families earn more than $24,000 a year would be that they would eat a program-supported lunch 9 times out of 10, rather than every day of the 2-week period. So we think that

they would skip a program meal once in a while, but that it would not be that they would entirely drop out of the program.

Senator KASTEN. I hope you are right. And I was just handed this list of schools that have dropped the National School Lunch Program. And I remember going over this list with some of the representatives from Wisconsin.

I think we all agree we want to be targeting the people that need the help the most, but in the process of targeting the people that need the help the most, we do not want to lose the whole program.

Mrs. NELSEN. Absolutely. And we share that concern, and we do not believe that that would happen. At the margin, however, you can see the number of schools that made a decision this year not to stay in the formal program without any change in the Federal Government. So there are a number of reasons why school districts make these changes, either to come into the program as West Allis is now considering, or to drop the program.

But I was struck when I saw that list by the small number of students in the program. And it may be that they have found an alternate way of feeding those youngsters, or something else is going on in those school districts. Some of the schools may have closed, quite frankly; they are very small schools, very small enrollment.

Senator KASTEN. Mr. Chairman, thank you.

Senator BURDICK. I assume we all agree on the School Lunch Program, do we not?

Ms. BERTINI. Absolutely. Twenty-four million children a day eat school lunches.

Senator KASTEN. Now we just have to do better on the Special Milk Program. [Laughter.]

SUBMITTED QUESTIONS

Senator BURDICK. I could second that, too. Thank you for your testimony. Additional questions will be submitted for written responses, and we will ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FOOD AND NUTRITION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

THE EMERGENCY FOOD ASSISTANCE PROGRAM

Question: You propose a decrease of $23 million for the Emergency Food Assistance Program administrative costs and base that on a reduced value of commodities distributed through the program. It seems to me there may be no correlation between the value of commodities and the cost associated with administering them. The more likely correlation is between the amount of commodities and the administrative cost.

What is the amount of commodities supplied through TEFAP during 1990, 1991 and 1992?

Answer: During Fiscal Year 1990, 412.2 million pounds of food were supplied to needy Americans through the Emergency Food Assistance Program. In 1991, an estimated total of 454.3 million pounds will be supplied; and we expect approximately the same level will be supplied in Fiscal Year 1992. This can be compared to over 1 billion pounds of commodities distributed in the peak year, Fiscal Year 1987.

While committed to assisting people in emergency situations, the Department decided to decrease funding of The Emergency Food Assistance Program -- TEFAP -- administrative funds from $50 million to $27 million for two reasons: the program has changed fundamentally, and States have turned back considerable amounts of administrative funds the last two fiscal years.

TEFAP has changed significantly since administrative funding support began in 1983. The administrative funding level has remained constant at $50 million annually, however, and is now disproportionate to the burden of distribution in States. Several factors have contributed to the growing imbalance. The value of commodities distributed has decreased by three-fourths since 1987. Current administrative funding averages 21 percent of the value of commodities, whereas administrative funds between 1983 and 1987 averaged 5 percent of the value of commodities distributed. Another influencing factor has been the decrease in storage costs that accompanied the significant decrease in cheese and butter donations, for now most current donations require primarily dry storage, which is much less expensive than the refrigerated or frozen storage required earlier for the dairy products. Finally, TEFAP is now more integrated into the food bank network, resulting in streamlined distribution systems in many States.

In deciding to decrease TEFAP administrative funds, the Department also considered the amount of TEFAP administrative funds which have gone unused by the States in the last two years. In Fiscal Year 1989, over $6 million in TEFAP administrative funds was

returned to the U.S. Treasury. According to preliminary reports, it appears that over $1 million of Fiscal Year 1990 funds will also be returned to the U.S. Treasury. Return of these funds to the Treasury, even after FNS's attempts to reallocate them among States using their full allowance, indicates that the demand for these funds falls short of the total $50 million available.

The Department recognizes Congressional intent, expressed in the Hunger Prevention Act of 1988, of encouraging state and local emergency feeding organizations to secure private donations by allowing TEFAP administrative funds to be used for the storage, handling, and distribution of privately donated as well as USDA donated commodities. However, based on the changes in the program's size and the amount of administrative funds turned back in the last two fiscal years, we believe a decrease in this funding is warranted and does not diminish the Administration's commitment to encouraging private action to help the hungry and the poor.

Question: Of those amounts, how much is attributed to the purchase of commodities using appropriated funds?

Answer: For Fiscal Year 1990, 149.9 million pounds was attributed to the purchase of commodities using appropriated funds. For Fiscal Year 1991, we expect to use appropriated funds to provide 185.3 million pounds. The increase in volume is generally attributable to a lower price per pound for the foods selected this year.

WIC FOOD COSTS

Question: Last year we encouraged you to assist states in developing multi-state or regional contracts for price concessions on components of the WIC food package.

What progress are you making in this regard?

Answer: The seven State agencies in the Northeast Region -- Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island and Vermont -- issued a Request For Proposals (RFP) in January, 1991 seeking a competitive, single-supplier contract by which infant formula could be obtained at the lowest overall cost to each respective State's WIC Program. The States decided not to accept any of the bids received in response to this RFP. At this time, these same States, except Vermont which utilizes a home delivery system, are planning on issuing another RFP. The issuance date of this next RFP is not known at this time. FNS provided guidance to these States during the development of the initial RFP and has reviewed the pending RFP to ensure compliance with existing Federal cost containment regulations.

Question: Are any multi-state or regional contracts in place?

Answer: Three States, Maryland, Delaware and the District of Columbia, entered into a tri-State infant formula rebate contract in Fiscal Year 1989. That contract will expire April 30, 1992.

Question: For what foods?

Answer: The tri-State contract of Maryland, Delaware and the District of Columbia is for infant formula.

The Northeast Regional Request for Proposal which was issued in January, and which did not result in the award of a contract, was also for infant formula.

INFANT FORMULA

Question: We also asked the Department to conduct a study of the most cost-effective means for procuring infant formula for the WIC program. That study is due by this May.

What are the preliminary results of that study? And when can we expect it?

Answer: The report will be completed and released in May as requested. Based upon the current infant formula rebate contracts for the 51 geographical WIC state agencies, the ranges for per can rebates under the various types of rebate systems are as follows:

[The information follows:]

Competitive, sole source	$ 0.690 - 1.883
Competitive, multi source	$ 1.000 - 1.190
Open Market	$ 0.015 - 1.429

Question: We also asked the Secretary to study the procedures used to determine the amounts that infant formula manufacturers are billed for rebates under cost containment systems and to report the findings to us by August.

What is the status of this study? What are the preliminary findings?

Answer: The Department intends to respond to this request in two ways. First, based on staff review of infant formula procurement requests developed by WIC State agencies, we intend to describe the major systems in place by which formula manufacturers are invoiced for contractually-specified rebates. The strengths and weaknesses of these systems will also be described. Second, we intend to rely on two recent studies of State management of infant formula rebates to determine if there have been any particular problems noted in the way in which invoices are prepared, processed, and/or paid. These studies were conducted by the Department's Office of the Inspector General and the Government Accounting Office. Preliminary analysis of both studies, however, has revealed no particular management weaknesses that merit either administrative or legislative action.

The Department's report will be submitted by the August date suggested by the Committee.

Question: What thought has been given to the Federal Government manufacturing its own infant formula and providing it at cost for nutrition programs? Isn't this a viable option?

Answer: The Department does not believe that it would be feasible or appropriate for the Federal Government to manufacture infant formula. It would require considerable resources to build, equip, and staff infant formula production facilities. In addition, the Government would have to develop and implement a nation-wide system to distribute the formula and monitor shelf life.

The Federal Government would then be in the unprecedented role of not only manufacturing a consumer good that is already available in the market place, but also operating in direct competition with private manufacturers.

Question: What would the savings be compared to current infant formula costs?

Answer: We do not know what the costs would be, however, we do not think that it would be feasible or appropriate for the Federal Government to manufacture infant formula.

WIC

Question: When can we expect a report on the Farmers' Market Pilot Projects? Please provide a summary of your report for the record.

Answer: We are currently completing our final clearance on the Farmers' Market Pilot Projects report. In the report we assess demonstration operations in the ten States and examine the impact of the project on the women receiving coupons and participating farmers. We plan to release it April 1991, and will send you a copy of the report shortly.

Question: Please provide information by State on the percent eligible and those participating in each nutritional risk category.

Answer: Estimates of the number of persons eligible for WIC at the State-level can only be produced using decennial census data. FNS produced and made public State- and county-level estimates based on the 1980 Decennial Census. Those estimates are no longer current. FNS has recently estimated that 7.7 million women, infants and children were eligible for the WIC Program in the U.S. and outlying areas in 1989.

FNS is exploring the use of a three-year rolling average from the Current Population Survey to produce State-level eligibles estimates. If successful, this will allow estimation of State-level eligibles more frequently in the future.

As required by P.L. 101-147, FNS will again produce State- and county-level estimates of WIC eligibles when the appropriate data is available from the 1990 Decennial Census. The Census Bureau expects to release the relevant data in late 1992 and 1993.

Question: Please provide for the record a list of states that participate in funding the WIC Program and the extent of the participation.

Answer: I would be glad to provide that information for the record.

[The information follows:]

State	Amount	Funds Available	Purpose
Alaska	467,000	7/1/90-6/30/91	Food & NSA 1/
Connecticut	118,000	7/1/90-6/30/91	NSA
Delaware 2/	320,000	7/1/90-6/30/91	Food
Dist. of Columbia	600,000	10/1/90-9/30/91	Food & NSA
Hawaii 3/	50,000	7/1/90-6/30/91	Food & NSA
Illinois	4,410,000	7/1/90-6/30/91	Food
Indiana	200,000	7/1/90-6/30/91	NSA
Iowa	200,000	7/1/90-6/30/91	Contingency
Massachusetts	4,559,709	7/1/90-6/30/91	Food & NSA
Michigan	387,800	10/1/90-9/30/91	NSA
Minnesota	750,000	7/1/90-6/30/91	Food & NSA
New Hampshire	96,000	7/1/90-6/30/91	NSA
New Jersey	850,000	7/1/90-6/30/91	Contingency
New York 4/	42,064,300	4/1/91-3/31/92	Food & NSA
N. Carolina	1,307,000	7/1/90-6/30/91	Food
Pennsylvania 4/	15,000,000	7/1/90-6/30/91	Food & NSA
Texas 4/	5,592,000	9/1/90-8/31/91	Food & NSA
Washington 5/	2,444,000	7/1/90-6/30/91	Food & NSA
W. Virginia	400,000	7/1/90-6/30/91	Food & NSA
Wisconsin	4,820,000	7/1/90-6/30/91	Food & NSA

1/ Nutrition Services and Administration

2/ Though Delaware appropriates funds for food only, it also provides a nutritionist and two support staff to its WIC Program.

3/ Hawaii has introduced legislation to increase WIC funding from the current $50,000 to $650,000 in State Fiscal Year 1992.

4/ Includes State matching funds for farmers' market demonstration projects.

5/ If the State's anti-hunger bill is passed, Washington will increase WIC funds to $12.4 million for State Fiscal Year 1992.

Question: What would be the cost per year of implementing the National Association of WIC Directors five-year plan to fund WIC fully by 1996?

Answer: Our most recent estimate, based on the 1990 Current Population Survey, is that there were about 7.7 million women, infants and children eligible for WIC in 1989. If all the eligible persons participated, the cost of the program in Fiscal Year 1996 would be about $4.7 billion.

If we assumed that 85 percent of all eligibles participated, the rate for the AFDC program, participation would reach 6.5 million persons at a cost in Fiscal Year 1996 of about $4.0 billion.

To reach a participation level of 6.5 million in 1996 by increasing funding in equal increments over five years, we estimate that the total costs of the WIC Program in each year would be as follows: $2.8 billion in 1992; $3.1 billion in 1993; $3.4 billion in 1994; $3.7 billion in 1995 and $4.0 billion in 1996.

FEDERAL REVIEW SYSTEM

Question: You request $6,500,000 for the federal review system and indicate that this will fully fund the system. What have you done with the $3,653,000 for the federal review system in 1991?

Answer: Of the $3,653,000 allocated for the Federal Review System in 1991, $1,000,000 was set aside to support continuing training efforts in subject areas related to meal accountability. The remaining $2,653,000 was allocated for review activity. In Fiscal Year 1991, reviews were targeted to school districts with enrollment greater than 30,000 that had not been previously reviewed, and to larger districts where serious problems had been previously identified.

Training activities that began with the initiation of Federal Review continued in 1991. Funds allocated this year are being used to support the final stages of development of two major training packages. One deals with meal counting and claiming and the other with application approval and verification. Each package consists of a video, a comprehensive manual, lesson plans, pretests and post-tests, a training script with overhead transparencies and a take-home pamphlet. A first package addressing meal patterns and offer versus serve was distributed in 1990. It received overwhelmingly positive response from State and local school food service directors and their staff. We anticipate the same response to these additional efforts.

Also during 1991, we continue our efforts to involve and sensitize non-food service education administrative officials to the needs of school nutrition programs as originally recommended by representatives from the American School Food Service Association, State agencies, and local school food authorities. These efforts include development and distribution of a video and pamphlet as well as presentations to groups and associations of these officials.

On-site review work for Fiscal Year 1991 began in October and will not be finished until mid-May.

Question: How many reviews have you conducted?

Answer: On-site review work for 1991 is still underway and will not be finished until mid-May. When the site work is completed we anticipate that we will have reviewed more than 930 schools in more than 90 school food authorities this year. This includes reviews of school food authorities, follow up reviews of school food authorities who exhibited serious past problems, as well as Federal

support of State reviews conducted under the State administered Assessment, Improvement and Monitoring System.

Question: What has been the result?

Answer: Final results will not be available for some time since on site review activity is still continuing. However, one problem that has been identified, is that some of the large local school food authorities that were found to have problems in the first year continue to have the very same problems in meal counting and claiming. On the other hand, we have also identified some very large urban districts that run exemplary programs, with very few errors. This is a very encouraging sign. It demonstrates clearly that our accountability goals are in fact attainable, even in the largest systems, if the desire to do so is present.

Question: What kind of problems are you identifying?

Answer: Even though a decrease in the number of application approval errors has been noted, problems in application approval are still common. In some cases, applicants who have not provided complete information on the application are being approved for meal benefits. In other cases, incorrect eligibility determinations are being made by school officials. Many times school records, such as rosters or tickets, identify students as receiving meal benefits other than those for which they were approved.

Problems in meal count and claiming procedures are also being identified. In some situations the meal count system in use on the day of review appears to provide a reliable meal count by type. However, other statistical indicators used in the review process indicate that the number of meals claimed prior to the review was obtained by a method other than that observed.

Question: Have any cost savings resulted?

Answer: We estimate that 1991 collections will exceed the approximately $2 million collected in 1989 and $2 million projected for 1990. We spent about $2.4 million in Fiscal Year 1989, and $2.3 million in Fiscal Year 1990 to conduct the reviews. Fiscal Year 1991 collections should increase because our review efforts are targeted to school districts with large enrollments that had not been previously reviewed, and to larger districts where serious problems had been previously detected.

These collection figures, however, do not tell the whole story of the success of the Federal Review effort. The impact of this initiative goes beyond the dollar figures cited here. Corrective actions and program improvements, implemented as a result of Federal Review, both in reviewed districts and in districts that anticipated reviews will have an impact on local level program integrity and expenditures that cannot be quantified. This impact has been reinforced by the training materials which we have developed and distributed.

Question: How are you coordinating with state review programs?

Answer: The regional offices of the Food and Nutrition Service are working closely with State officials to make absolutely sure that no duplication of effort occurs. School food authorities scheduled for review by State officials or by other Federal officials, such as staff from the Office of the Inspector General, were excluded from FNS Federal Review plans for the year.

Question: How many reviews would you conduct with full funding?

Answer: We estimate that at the requested level the number of school reviews completed will increase to about 1,000 in Fiscal Year 1992. We would also conduct 750 to 800 site reviews in the Child and Adult Care Food Program.

Most of the requested increase in funding would be directed toward implementation of federal review in the Child and Adult Care Food Program--CACFP. This would enable us to test the feasibility and effectiveness of having Federal staff perform site and sponsor accountability reviews in the CACFP.

This initiative would help us address several concerns. The USDA's Office of the Inspector General has found significant problems with large sponsors of Child Care Centers and Family Day Care Homes, although they have devoted limited attention to the CACFP.

The CACFP is the fastest growing FNS program. Program cost will exceed $1 billion in Fiscal Year 1991. An effective system of Federal reviews will help ensure that this fast growing program is well managed and highly accountable. There is currently no significant resource assigned to Federal monitoring of this program.

The CACFP initiative will enable Federal staff to focus on sites and problems that have not been successfully dealt with by a State agency. Federal Review will motivate States to work positively with local program operators to correct problems and eliminate deficiencies, and identify areas where training and technical assistance resources should be devoted to improve program accountability.

NUTRITION EDUCATION AND TRAINING

Question: How many school districts are being reached with NET funding in 1991?

Answer: Due to State reporting requirements, data for Fiscal Year 1991 is not yet available. Data is collected on the number of public and private schools reached, rather than by school district. Data submitted for Fiscal Year 1990 show 19,412 schools were reached. In addition, the NET program serves participants in the Child and Adult Care Food Program, with 6,392 child care institutions reached in Fiscal Year 1990.

Question: How many would be reached under your 1992 budget?

Answer: State Plan amendments for Fiscal Year 1992 will be submitted to the Regional offices of the Food and Nutrition Service by August 15, 1991. We anticipate that the numbers of children, teachers and food service workers reached in Fiscal Year 1992 will approximate the number reached in Fiscal Year 1990.

Question: What activities are being conducted with NET funding?

Answer: Activities vary from year to year, as States address top priorities identified by their ongoing needs assessments. A few examples of innovative activities underway this year are: developing basic nutrition education materials targeted to day care providers; developing curriculums for preschool children; intensive inservice training and technical assistance to school districts on model healthy eating practices, and reinforcing classroom nutrition instruction.

ELECTRONIC BENEFITS TRANSFER

Question: How many and what EBT systems are you currently evaluating?

Answer: Three solicited Food Stamp EBT projects are currently being evaluated by FNS: Albuquerque, New Mexico, which is operational on-line, Ramsey County, Minnesota, which is pre-operational on-line, and Dayton, Ohio, which is pre-operational off-line.

One unsolicited Food Stamp on-line EBT project is operating in Baltimore, Maryland. The State conducted an evaluation of the early pilot experiences; FNS now plans to assume responsibility for the evaluation of an expanded system.

One off-line WIC EBT pilot project will be operational in Wyoming in late Spring. It will be evaluated by the State with funding and assistance from FNS once it is operating.

Last spring the Agency completed its evaluation of the State-operated EBT project conducted in Reading, Pennsylvania. Final reports including all findings were released to the various Congressional committees in late April 1990.

Question: What additional EBT projects are you anticipating for 1992?

Answer: We expect at least four additional EBT projects will become operational on a demonstration basis in 1992. Some existing projects may also expand. Possible additional projects starting up next year include: Linn County, Iowa; Camden, Essex and Hudson Counties in New Jersey; Oklahoma County, Oklahoma; and the Charleston - Trident Darlington - Florence areas of South Carolina.

Expansion of existing projects in Pennsylvania and Maryland are also possible.

Other States and counties have expressed interest and may submit proposals either before or after EBT becomes an operational alternative in April 1992. These include Washington State, Virginia, Colorado, Illinois, San Bernadino County, California, Texas and Tennessee.

Question: Do you project that switching to EBT systems will eventually result in savings for the programs? What are your projections in this regard?

Answer: Electronic Benefit Transfer systems have the potential for improved recipient service, reduced benefit diversion and lower administrative costs. The degree to which all of these program improvements can be realized will depend on a variety of factors, including the development of commercial point-of-sale systems, the cost of equipment, and the extent to which there are combined assistance program applications. Evidence to date is encouraging. In addition, the EBT provisions of the Farm Bill require cost neutrality to the Federal Government. The Department of Agriculture will continue to monitor closely the costs and other impacts of new EBT systems.

CSFP

Question: I understand that your budget request would reduce the caseload for CSFP by 24,000 in the elderly programs. What funding would be needed to maintain the 1991 caseloads?

Answer: The President's Budget requests $85.4 million to continue CSFP in Fiscal Year 1992 under current law. This request represents a 4.2 percent increase over the appropriated level for Fiscal Year 1991, which is consistent with the treatment of domestic discretionary programs under the Budget Enforcement Act.

Maintaining the Fiscal Year 1991 caseload level in Fiscal Year 1992 would require overall funding of $91.3 million. This represents a $5.9 million increase above the requested appropriation.

The 1991 caseload is supported in part by Commodity Credit Corporation (CCC) donations above the level required by law. In addition to the 9 million pounds of cheese and 4 million pounds of nonfat dry milk required by P.L. 101-624, the CCC donated an additional 5.8 million pounds of nonfat dry milk in Fiscal Year 1991, valued at $5.6 million.

The President's Budget assumes that appropriated funds will be used to purchase nonfat dry milk above the level required to be donated. If surplus commodities become available for donation to the program in Fiscal Year 1992, as they were in Fiscal Year 1991, it should be possible to continue to support the current caseload

with appropriations at the level requested in the President's Fiscal Year 1992 budget.

Question: What applications and for what amount of participants have you received for new programs and increased caseloads that you have not been able to fund?

Answer: Unfunded requests for Fiscal Year 1991 totalled 146,793 caseload slots. Participating State agencies requested 76,124 expansion slots for women, infants and children and 77,754 expansion slots for elderly participants. This represents an 88 percent increase in expansion requests for participating State agencies over Fiscal Year 1990. The Department was able to authorize 52,197 expansion slots, or 68.6 percent of slots requested to expand service to women, infants and children. No expansion for elderly was authorized. In addition, new applications from Ohio, Texas and Pennsylvania for initial caseload of 45,112 also were not authorized.

We are concerned that in some instances States have overestimated their ability to serve participants at the level requested. For example, 13,680 unused caseload slots from the previous fiscal year were recovered for Fiscal Year 1991 expansion.

Current regulations require the Department to satisfy requests for expansion first for women, infants and children, then for elderly, and then for States not currently participating in the program.

Question: What are the associated costs?

Answer: The Fiscal Year 1992 estimated annual costs for funding all unfunded caseload expansion requests made in Fiscal Year 1991 would require an additional $41 million.

This estimate assumes average monthly food and administrative expenses of $25.33 per women, infant, or child recipient, and $21.06 per elderly recipient over a 12 month period.

CCC-DONATED COMMODITIES

Question: What amount of CCC-donated commodities are anticipated for 1991 and 1992? What was the amount in 1990?

Answer: In Fiscal Years 1991 and 1992, 4 million pounds of nonfat dry milk and 9 million pounds of cheese will be donated to the Commodity Supplemental Food Program, as required by P.L. 101-624. In Fiscal Year 1991, an additional 5.8 million pounds of nonfat dry milk is being donated to the program.

The President's budget assumes that for Fiscal Year 1992, the Food and Nutrition Service will purchase 5 million pounds of nonfat dry milk, above the 4 million pound donation required by P.L. 101-624, to cover anticipated caseload needs. Nonfat dry milk is an

essential component in the Commodity Supplemental Food Program food package and must be provided through Commodity Credit Corporation donations -- if available -- or purchased with appropriated funds.

Cheese is considered a "bonus" commodity. Based on availability, cheese is provided in addition to the required basic food package. Cheese donated in Fiscal Years 1991 and 1992 will be provided as a bonus commodity to participants. Butter, honey, and cornmeal are also bonus commodities provided by the Commodity Credit Corporation. These commodities will be donated during Fiscal Years 1991 and 1992, but the levels available are not known at this time.

In Fiscal Year 1990, CSFP distributed 8.6 million pounds of nonfat dry milk of which approximately 2.4 million pounds was donated to the program by the Commodity Credit Corporation and 6.2 million pounds were purchased with funds appropriated for CSFP. In addition, 7 million pounds of cheese, 3 million pounds of butter, 2 million pounds of honey, and 7 million pounds of cornmeal were donated by CCC.

Question: What are the amounts specified in the Agriculture Consumer and Protection Act of 1973?

Answer: The Food, Agriculture, Conservation and Trade Act of 1990 amended the Agriculture Consumer and Protection Act of 1973 to require that the CCC make available to the Commodity Supplemental Food Program, to the extent available, not less than 9 million pounds of cheese and not less than 4 million pounds of nonfat dry milk for each of the Fiscal Years 1991 through 1995.

Question: Would FNS be required to reimburse CCC for any commodities in 1992?

Answer: CCC donations are not charged against the CSFP appropriation. FNS does not intend to reimburse the CCC for these donations in Fiscal Year 1992.

The President's budget assumes that for Fiscal Year 1992, the Food and Nutrition Service will purchase 5 million pounds of nonfat dry milk, above the 4 million pound donation required by P.L. 101-624, to cover anticipated caseload needs. The purchase of 5 million pounds is based on the assumption that this product would not be available for donation from CCC inventory.

Appropriation language proposed by the President would allow additional donations only if they did not impede the mission of developing and maintaining foreign markets by selling government-held commodities in world trade at competitive prices. Also, by limiting donations to CSFP, spending from the CCC -- a mandatory program -- would not be used to fund a discretionary program.

QUESTIONS SUBMITTED BY SENATOR HARKIN

CHILD NUTRITION PROGRAMS/DIETARY GUIDELINES

Question: The Child Nutrition Reauthorization Act of 1989, section 112, instructed the Secretary of Agriculture and the Secretary of HHS jointly to develop nutrition guidance for child nutrition programs. The goal for this particular publication is to help school food service authorities implement the Dietary Guidelines for Americans. It is my understanding that this new document is to be released this fall.

How is the Department progressing with its plans for the preparation and distribution of this publication?

Answer: A draft, developed jointly by the Departments of Agriculture and Health and Human Services, is currently being reviewed by nutrition working committees of both Departments. Following the preliminary departmental clearances, we plan to seek public comment on the draft. At that time it will be sent to various medical and professional nutrition organizations for review. The document will then be revised, as necessary, and forwarded to both Departments for official clearance. We expect to submit the final document for design and printing in fall 1991, with distribution in spring 1992.

Question: Will the guidance be specific enough to be practical, yet flexible enough to be workable at the local school food service level?

Answer: Yes. The nutritionists and food service professionals who developed the draft publication have taken great care to ensure that the language is non-technical and easy to read and understand. This was necessitated by the fact that the target audience of approximately 275,000 program cooperators, ranges from food services directors of large multi-unit school systems to family day care providers caring for a few toddlers in a home setting. The nutrition messages are accompanied by sample menus and practical suggestions for choosing, preparing and serving foods that contribute to a healthy diet for children. The information is patterned after the revised Dietary Guidelines for Americans so that it is consistent with the basic dietary guidance policy of the Federal Government.

Question: What additional costs are school food service programs likely to incur as they modify their food plans to implement the Dietary Guidelines?

Answer: It is too early to know what specific changes will be necessary to fully implement the newly revised Dietary Guidelines for Americans in child nutrition programs or if changes will affect costs.

Implementing the guidelines could actually cause food costs to go down instead of up. For example, the meal pattern could be changed to require less meat/meat alternate and more complex carbohydrates. This type of change, however, could result in a

lower cost per meal since grain products such as pasta or bread have a lower cost than many meat/meat alternate products, which are major sources of dietary fat.

Question: Does the Department have any estimates of expected per-meal cost changes caused by implementing the Dietary Guidelines?

Answer: It is premature to estimate any cost changes caused by implementing the new dietary guidelines. Once the dietary guidance has been disseminated, the Department will evaluate the current meal pattern requirement to determine what, if any, changes are necessary. At that time the Department will be in a better position to estimate any cost changes.

REDUCED PRICE MEALS

Question: It is my understanding that several states have lowered the price of reduced-price meals in an effort to increase participation in school food service programs. However, it is also my understanding that the experience in these states was that lowering the price of reduced-price meals did not have a major effect on participation.

Which states have lowered the price of reduced-price lunches below 40 cents?

Answer: FNS does not maintain information on current lunch prices by State and was unaware that any States have recently lowered prices. We are very interested in the fact that some States may be already implementing a change similar to what is proposed in the President's budget. We are interested in learning what effect the change is having on the number of children applying for reduced-price benefits. The President's proposal to increase reimbursements to reduced-price children is intended to increase participation among these low-income children. The Department will work with States to determine the effect of these changes, and we will report to you on our findings.

Question: When did those states lower the price of reduced-price lunches?

Answer: We will ask States both if and when they changed their reduced-price pricing policies.

Question: What effect did lowering the price of reduced-price lunches below 40 cents have on school-lunch participation in those states?

Answer: We are not aware of any States that have lowered the reduced price. However, we will examine this issue and report back to the Committee.

We do know that approximately 2.3 million children from households with incomes between 130 and 185 percent of poverty are eligible for reduced price benefits, but do not apply. Because they have not been approved for reduced price meals, if they do eat a school lunch, they must pay the full price.

The President's Budget proposal would reduce the maximum price that these children pay for lunch from 40 cents to 15 cents. FNS believes that this change in price will cause an additional 250,000 students nationwide to apply for benefits.

The estimate of 250,000 additional students is based on an analysis of changes in participation due to the Omnibus Budget Reconciliation Act of 1981--OBRA. Participation in the reduced price category decreased by 300,000 meals daily in the year following OBRA's enactment. OBRA decreased reduced price subsidies and increased the maximum price charged from 20 to 40 cents. It also reduced the income eligibility guidelines and eliminated a standard deduction which effectively reduced the eligibility guidelines from 208 to 185 percent of poverty. In combination these changes had the effect of decreasing the number of children in the reduced price category by over 350,000.

The price decrease proposed by the President's Budget is of the same magnitude as the OBRA price increase. After accounting for the other changes made by OBRA, FNS concluded that 250,000 was a reasonable estimate for the number of new reduced price applicants due to the proposed subsidy increases.

SCHOOL LUNCH PROGRAMS

Question: I am very concerned that participation in school food programs lags in large part because families believe that there is a stigma attached to applying for and receiving free or reduced-price meals, especially in small communities, where parents usually know personally the school officials who will review their financial information. And people in Iowa involved in administering school food programs are not happy with their role in collecting and documenting information about the family incomes of their students.

In addition, there certainly are impediments to participation by children from families that do not qualify for free or reduced-price meals. In Iowa we have many families with incomes just above the level that would qualify their children for reduced-price meals. It is not easy for them to pay full price for meals. Incidentally, this point is also very significant in relation to proposals that would increase the cost of full-price meals, and it demonstrates the need for a broad base of support for the school food programs and for all students they may serve.

These considerations and concerns raise for me a number of questions about how we might restructure the school food service programs in order to increase participation in them.

Would it be possible to restructure school food programs in a way that would get local schools out of the business of seeking and documenting personal family income information?

Answer: Recently FNS took some steps to increase participation in the School Lunch Program while reducing the stigma attached to filling out an application for free meals at the school. This past year, FNS provided, in accordance with P.L. 101-149, for direct

certification for free meals from Food Stamp or AFDC rolls. In other words, at the discretion of the school district, a child may be deemed eligible for free meals based on direct contact with the local AFDC or Food Stamp office. At least one State is performing direct certification on a statewide level.

The Department also places great emphasis on avoiding overt identification of children as they participate in the program. All NSLP regulations are constructed to protect the privacy of families who receive free or reduced price benefits.

Question: Would it be possible to restructure the school food programs to remove some of these impediments to participation (stigma, low income), for example, by allowing all enrolled students to go through the line and collecting the appropriate amount for the meals through some system that does not require submitting personal family income information to local school officials?

Answer: It is not possible to provide the proper reimbursement for meals unless we know the household income of the participating child. Collecting the information from the household, in the majority of circumstances, is the best way to do this.

FNS does allow direct certification of food stamp and AFDC households. We are able to do this, however, because the income information was collected as part of the food stamp/AFDC application process.

We are looking at alternatives to household income data collection that may work in some special circumstances. Alternatives to application processing are currently being tested through the Paperwork Reduction Pilot Projects. The Child Nutrition and WIC Reauthorization Act of 1989--P.L. 101-147--required the Secretary of Agriculture to carry out pilot projects to test alternatives to annual application in the National School Lunch Program.

The Food and Nutrition Service chose twelve sites to participate in the pilot project. One of the pilot sites has developed an alternate certification method and is paying for a statistical survey specifically for this project.

Since the pilot projects have just begun, FNS has no information on the success of the project at this time. The projects are scheduled to run until 1994. A report to Congress is due at that time.

Question: It has been suggested that the Internal Revenue Service, or perhaps the state revenue department, could be used to collect an annual school lunch payment in the appropriate amount from families in the paid or reduced-price categories. What does the Department think of proposals along this line? Have ideas of this kind been studied by the Department?

Answer: This idea was examined in a proposal for the Paperwork Reduction Pilot Projects. However, it was determined inappropriate for a number of reasons. First of all, FNS believes that this type

of coordination with the IRS would not result in any reduction of paperwork at the school district or household level. In addition, reduced price and paid students do not participate with the same regularity or frequency as do free students. Rather than count total meals by category, schools would have to maintain counts by child. It would be time consuming, difficult, and expensive to keep an accurate count of meals consumed by these students in order to subtract the correct annual school lunch payment from a family tax return. This would be particularly true for children who participate infrequently.

Question: What would the Department's position be on having the price of school meals graduated on the basis of the age of the child, rather than on the basis of the income of the child's family?

Answer: A fundamental purpose of the National School Lunch Program is to ensure that low-income children receive nutritious meals. Therefore we have no plans to change the basic income based reimbursement structure of the program.

However, it is interesting that age seems to be an important factor in the school lunch program. For example, three-fourths of all children in grades 1-6 participate on a daily basis as opposed to one-half of students in grades 10-12.

The Department will continue reviewing age/participation trends.

NUTRITION EDUCATION AND TRAINING

Question: From a child nutrition perspective, the President's 1992 proposed budget is a major improvement over the 1991 proposed budget. I was disappointed, however, that the Administration is seeking to cut the funding for Nutrition Education and Training by $2.5 million, from $7.5 million to $5 million.

Are we not moving in the wrong direction on this item? What is the Administration's rationale for this cut?

Answer: This program was intended to provide seed money for the States to begin or augment training of educational and school food service personnel to provide nutrition educational programs in schools. Continued Federal support for this program at the $5 million level meets the intent of the program; States should decide the appropriate level of total funding for these activities by supplementing the basic Federal grant as they deem necessary.

NATIONAL SCHOOL LUNCH -
TYPE OF MILK OFFERED

Question: Senator Lugar has recently introduced legislation that would amend the National School Lunch Act with regard to the current requirements regarding the type of milk offered. The legislation has the support of the American School Food Service Association.

What is the Department's position on this legislation?

Answer: The consumption of milk as part of Child Nutrition Program meals is very important nutritionally. The Administration has not taken a position on Senator Lugar's proposed legislation at this time.

Question: What would be the secondary impact of this legislation on the dairy price support program?

Answer: We don't anticipate that there would be a significant secondary impact because, while schools are required to offer whole milk, many children currently drink lowfat milk. Some schools report that the most popular choice is 1 percent lowfat chocolate milk followed by 2 percent lowfat unflavored milk.

Thus we do not expect a major effect on the dairy price support program. We will do some follow-up work with others in the Department and will report to you if that analysis supports a different conclusion.

THE EMERGENCY FOOD ASSISTANCE PROGRAM

Question: A few years ago, The Emergency Food Assistance Program (TEFAP) gave out government surplus commodities at a rate of almost $1 billion a year. When the surpluses of many commodities were exhausted in 1987 and 1988, budgetary limitations prevented us from making up more than a small part of those lost commodities with special purchases. We did, however, seek to encourage state and local emergency feeding agencies to secure private donations of food to make up some of the rest of the gap. We did this by allowing them to use the $50 million in TEFAP administrative money to handle privately donated foods distributed with TEFAP commodities. The Administration's budget proposes to slash TEFAP state and local administrative funds from $50 million to $27 million. If this cut is implemented, little if any money will be available to process and distribute private donations of commodities, even if the private donors remain willing to give.

Could you please tell me how to reconcile this proposal with the President's "thousand points of light" theme encouraging private action to help the hungry and poor?

Answer: While committed to assisting people in emergency situations, the Department decided to decrease funding of The Emergency Food Assistance Program (TEFAP) administrative funds from $50 million to $27 million for two reasons: the program has changed fundamentally, and States have turned back considerable amounts of administrative funds the last two fiscal years.

TEFAP has changed significantly since administrative funding support began in 1983. The administrative funding level has remained constant at $50 million annually, however, and is now disproportionate to the burden of distribution in States. Several factors have contributed to the growing imbalance. The value of commodities distributed has decreased by three-fourths since 1987. Current administrative funding averages 21 percent of the value of commodities, whereas administrative funds between 1983 and 1987

averaged 5 percent of the value of commodities distributed. Another influencing factor has been the decrease in storage costs that accompanied the significant decrease in cheese and butter donations, for now most current donations require primarily dry storage, which is much less expensive than the refrigerated or frozen storage required earlier for the dairy products. Finally, TEFAP is now more integrated into the food bank network, resulting in streamlined distribution systems in many States.

In deciding to decrease TEFAP administrative funds, the Department also considered the amount of TEFAP administrative funds which have gone unused by the States in the last two years. In Fiscal Year 1989, over $6 million in TEFAP administrative funds was returned to the U.S. Treasury. According to preliminary reports, it appears that over $1 million of Fiscal Year 1990 funds will also be returned to the U.S. Treasury. Return of these funds to the Treasury, even after FNS's attempts to reallocate them among States using their full allowance, indicates that the demand for these funds falls short of the total $50 million available.

The Department recognizes Congressional intent, expressed in the Hunger Prevention Act of 1988, of encouraging state and local emergency feeding organizations to secure private donations by allowing TEFAP administrative funds to be used for the storage, handling, and distribution of privately donated as well as USDA donated commodities. However, based on the changes in the program's size and the amount of administrative funds turned back in the last two fiscal years, we believe a decrease in this funding is warranted and does not diminish the Administration's commitment to encouraging private action to help the hungry and the poor.

BLOCK GRANTS

Question: Does the Administration's plan for converting federal programs into block grants for the States contemplate including WIC or CSFP in such a block grant? Why or why not?

Answer: The President's proposal to turn over greater responsibility to States for selected programs did not specifically include WIC or CSFP as likely candidates for block grants. It was intended that the actual selection of programs for turnover to States would be authorized by Congress in consultation with the Administration and the Governors.

Question: What problems could you see with such a proposal?

Answer: The President's Budget listed programs which could potentially be combined under more flexible funding arrangements that would reduce Federal overhead, allow more flexibility in State management of financial resources, localize decisionmaking and recognize the value of "States as Laboratories."

WIC currently enjoys broad popularity among States and local operators. It would be difficult to guarantee the continued success of the WIC Program if States could divert funds to other purposes, or could alter the current priority system. Commodity acquisitions

for CSFP could be complicated if this program is included in a block grant to States.

FOOD STAMP PROGRAM -
OUTREACH DEMONSTRATION GRANTS

Question: As you know, recent studies by USDA, GAO, and CBO have all found that between 40 and 60 percent of eligible households are not participating in the Food Stamp Program. Although the Hunger Prevention Act of 1988 authorized federal matching moneys for states conducting food stamp outreach, only a handful of states have taken advantage of this funding. State budget crises and uncertainty over what outreach techniques really work appear to be chief among the reasons for most states not availing themselves of this funding. Last year's food stamp legislation authorized $5,000,000 in demonstration grants to public or private non-profit organizations for outreach projects designed to increase participation by the rural poor, the elderly, the homeless, working poor families, and non-English-speaking minorities. The Administration's budget, however, appears to contain no money for these grants.

Could you please tell me why the Administration has not sought funding for these grants and what the Administration's plans are for these demonstrations?

Answer: FNS is committed to making sure Americans know about the Food Stamp Program. However, we did not ask for funding for these projects. Competing priorities for resources influenced our decision to not request funding. During preparation of the Administration's budget, we thought long and hard about our priorities for domestic programs in general and FNS programs specifically. We defined the following areas where improvement is needed: program integrity, nutrition, service to poor children, and coordination with other programs. The current fiscal situation also guided budget development.

Additionally, there has been a substantial increase in Food Stamp Program participation since 1989. In the last seven months alone, participation has increased by 2 million people. It is apparent that most needy Americans are aware of the Food Stamp Program. Estimates based on August 1985 data (the most recent estimates available) indicate that 60 percent of eligible households participated in the Food Stamp Program. However, those households received 80 percent of the benefits payable had all households participated, which indicates that the most needy households are participating. In fact three-quarters of eligible households with income below the poverty level participated.

There are also some alternative approaches to disseminating program information that are already available. In addition to the Federal matching funds you noted, FNS at the national and regional level has developed and reprinted several publications and posters, and will provide camera-ready copies of these materials to States and other organizations that wish to do mass distributions. We are also providing support to the AARP for outreach projects to increase participation among the elderly. Furthermore, we are currently

developing two outreach projects designed to increase participation by the homeless. The first is a joint project with the Department of Transportation and several other Federal agencies which will provide access to a variety of housing, income, and supportive services. The second is a series of small grants to target Food Stamp Program outreach to the homeless. Both of these initiatives should be underway by the end of this year.

Question: What is the Administration doing to encourage outreach activities that ensure that eligible households do not go without food stamps because of misconceptions about the program?

Answer: The Food and Nutrition Service has undertaken several activities to ensure accurate food stamp program knowledge.

In December 1990, FNS issued a policy memo making clear that the Agency would pay 50 percent of all State information outreach activities. The memo specifically listed eligible activities such as production of printed materials, production of radio and television spots, staffing booths at information centers, conducting workshops for community organizations, visiting senior centers or other locations where potential recipients may be located, and helping individuals complete applications.

The memo also encouraged States to target outreach efforts to the homeless, rural poor, elderly, Hispanics, and other groups which may not be participating at expected levels.

In Fiscal Year 1991 ten State agencies have opted to take advantage of the 50 percent funding provisions (Illinois, Indiana, Kentucky, Minnesota, Missouri, New York, North Carolina, Pennsylvania, Vermont, and Washington.) In Fiscal Year 1990 eight State agencies spent $1,881,074 under this authority; the Federal share was $940,537. We recently sent a policy memo to States clarifying and relaxing our rules governing which activities are eligible for the 50-50 match. This memo was developed after consultation and negotiation with advocacy groups.

In response to the anticipated needs of families affected by Desert Storm, FNS sent out a Desert Storm Family flyer to media contacts throughout the country. Information packets were also distributed to the Department of Defense, all 50 state adjutants general for the National Guard, various veterans groups--VFW, American Legion, AMVETS--, the National Governors' Association and other entities.

In Fiscal Year 1990 we reprinted publications and posters which included "Facts About The Food Stamp Program" and the poster entitled USDA Food Assistance. FNS also provided camera-ready copies and negatives of informational materials to State agencies and other organizations such as American Association of Retired Persons--AARP--who wanted to do bulk distributions.

FNS is currently developing two outreach projects designed to increase participation by the homeless. The first is a series of small grants for homeless outreach projects that will be awarded late in Fiscal Year 1991. A solicitation for applications is

currently being developed in the agency. The second is a joint project with the Department of Transportation--DOT--and several other agencies which will provide access to a variety of services. DOT is currently developing a solicitation for applications.

FNS is cooperating with AARP in outreach efforts aimed at the elderly. FNS efforts include coordinating information between State agencies administering the Food Stamp Program and AARP, participating in AARP kickoffs and training activities, and reviewing AARP training materials. Combined FNS and AARP projects are as follows:

1990 -- Food Stamp Outreach Projects in Las Cruces, New Mexico, Cleveland, Ohio, and Memphis, Tennessee. Highlights from the campaigns included: a Food Stamp Phoneathon held in conjunction with a local CBS affiliate in Cleveland; outstationing of eligibility workers for one week at senior centers in Memphis; and use of bilingual outreach workers and materials in Las Cruces.

1991 -- Food Stamps, Medicaid, and SSI Public Benefits Outreach Projects in ten sites: Oakland, California; Atlanta, Georgia; Wichita, Kansas; Escanaba, Michigan; Las Vegas, Nevada; Concord, New Hampshire; Buffalo, New York; Durham, North Carolina; Hillsboro, Oregon; Huntington, West Virginia. These projects have just recently started; however, already there is positive feedback.

FOOD STAMP PROGRAM -
PARTICIPANT RESOURCES

Question: As you know, public transportation in rural areas is generally scarce to non-existent. For rural households to buy food, look for or travel to a job, or obtain medical care, a car is a necessity. In rural areas such as those in Iowa that have severe winters, or in mountainous areas with poor roads, an adequate, reliable vehicle is a necessity. Current food stamp rules count the fair market value of a vehicle as a resource to the extent it exceeds $4,500 as a resource and generally disqualify households with vehicles worth more than $6,500. These rules apply without regard to the household's equity in the vehicle and without regard to the household's need for the vehicle to get to work. Many households thrown out of work in the current recession have been unable to get food stamps because they own a vehicle whose value exceeds these arbitrary limits. These rules have the ironic effect of forcing unemployed families to get rid of their cars, and with them their chances of becoming self-sufficient again, in order to obtain food stamps. Last year's food stamp reauthorization bill required the Department to conduct demonstration projects to determine the effect of allowing most households to have one car regardless of its fair market value and still be eligible for food stamps. I understand, however, that the Department may be construing a general provision in the overall Farm Bill not as allowing it to conduct this demonstration.

Could you please tell me whether the Department believes that the current vehicle resource rules need to be changed in any regard and whether it intends to conduct the vehicle demonstrations called for in the reauthorization law?

Answer: We do not believe the Department's current vehicle resource rules need to be changed at this time. Many vehicles are already entirely excluded from consideration as a household resource. These vehicles include those used to produce income or to transport disabled household members. Additionally, many reliable vehicles will have fair market values below the $4,500 limit. We believe these provisions are adequate to meet the transportation requirements of the overwhelming majority of program households.

Demonstration projects for the vehicle exclusion limit required by the 1990 FACT Act have been deferred to Fiscal Year 1992 or later. We plan to revisit the resource issue and the design issue in the future.

BENEFIT REDUCTIONS

Question: Last year the Administration made an excellent proposal to eliminate the authorization cap on the Food Stamp Program and the provisions for benefit reductions should spending be unexpectedly higher. The food stamp reauthorization bill eliminated the cap but left benefit reduction authority still in the law.

Does the Administration continue to support its proposal from last year to remove the threat of benefit reductions from the law?

Answer: Yes, we still believe that food stamp recipients should not have to fear the possibility that their benefits will be reduced. We proposed in this year's budget that indefinite spending authority be provided to eliminate that concern. We would also support a change in the program authorization to eliminate the benefit reduction provisions that currently exist.

CHILD SUPPORT ENFORCEMENT

Question: The Administration's budget largely repeats another proposal it made last year to deny food stamps to parents whom child support enforcement officials have determined not to have "cooperated" in seeking child support. This mandate would affect non-AFDC households since the AFDC law already has a similar mandate. Until very recently, many non-AFDC food stamp households were not eligible for state child support enforcement services. Even now, few if any states have conducted outreach efforts to let these parents know that they may receive help in obtaining child support.

Shouldn't our first step be to provide outreach to these parents rather than impose a new, heavy-handed government mandate?

Answer: Our proposal is designed to provide additional financial resources to children and their families in order to improve their quality of life and their chances of living independently from social welfare programs. Efforts to strengthen child support enforcement are especially important.

Our proposal, however, ensures access to these valuable services for non-AFDC households. Because of this, these households may receive additional resources which, although partially offset by decreases in food stamps, will result in a net increase in household income.

Child support enforcement services have been available to non-AFDC households since the beginning of the IV-D program. Since the Child Support Enforcement Amendments of 1984, States have been required to publicize the availability of IV-D services regularly and frequently.

Although some argue that Food Stamp Program-only single parents are fundamentally different from AFDC parents, this is not always the case. In some States--only in the South--where AFDC eligibility limits are low, many single parents do not qualify for AFDC. These persons especially will be helped by the additional income this proposal brings them.

This proposal differs from last year's by making the requirement optional for 3 years. A gradual phase-in of the mandatory cooperation requirement until Fiscal Year 1994 allows States and Child Support Enforcement agencies to implement the changes required in the Family Support Act of 1988. Thus, we think our proposal is an important step to increase resources available to low-income families.

Question: Does the Department have any research data showing that the overwhelming majority of these parents would not voluntarily make use of these services if they were informed that they were available?

Answer: We are not aware of any research which gives a direct answer to this question. We can, however, get a sense of how many food stamp families use the Child Support Enforcement system by looking at a recent supplement to the Current Population Survey, which is a national survey administered by the Bureau of the Census.

By our estimate, only about one-third of all non-AFDC food stamp families with children and an absent parent are part of the Child Support Enforcement Program. In addition, approximately one-fifth received full payment from awards obtained outside the IV-D system. Thus, roughly one-half of all food stamp single-parent families not currently on AFDC are not part of the current, voluntary IV-D system.

Question: At a time when states and recipients alike are complaining that the food stamp eligibility process is too burdensome, too difficult, and too intrusive already, is it appropriate to be creating another new set of requirements that will have to be verified and that may result in some people being denied food stamps for refusing to answer highly personal questions or for deciding that they or their child would be endangered if they were to seek child support from the absent parent?

Answer: Child support enforcement is intended to work for the ultimate benefit of children. While our proposal creates an

obligation on the part of food stamp participants to cooperate with child support enforcement activities, it also includes important safeguards and client protections.

The requirements for cooperation and the protection offered to clients who are unable or unwilling to cooperate will parallel those already in place for AFDC recipients. Strong safeguards are already in place when cooperation is not in the best interests of the children.

We believe the ultimate winners from this proposal are children and their families. When fully implemented, this proposal will increase resources available to non-AFDC food stamp families by $70 million a year.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CHILD NUTRITION PROGRAMS

Question: One of the President's priorities, as stressed in his State of the Union Message and projected in the 1992 budget is to invest in the education of children and to prepare children for the classroom. It seems to me that the child nutrition programs can play a very important role in preparing children for the classroom. Should we be restructuring the school lunch program in a way that would allow us to reach a greater number of those children that are eligible?

Answer: We agree on the importance of the child nutrition programs in preparing children for the classroom and we believe that the President's proposal to restructure reimbursement rates in the National School Lunch and School Breakfast Programs will allow us to serve a greater number of the eligible children.

The proposal will increase participation among children from households with incomes between 130 and 185 percent of poverty. Less than half of the children in this category currently apply for benefits. Approximately 2.3 million children from households with incomes between 130 and 185 percent of poverty are eligible for reduced price benefits, but do not apply. Because they have not been approved for reduced price meals, if they do eat a school lunch, they must pay the full price. By reducing the maximum price that these children must pay for lunch from 40 cents to 25 cents and from 30 cents to 10 cents for breakfast we believe that an additional 250,000 will apply for benefits and participate on a regular basis.

Question: I'm told that in Japan 98.2% of all elementary school children are served a school lunch. This compares with a figure of only 60% in the United States. Why is it that Japan is reaching so many more children through the national school lunch program?

Answer: We believe that any differences in participation rates between the United States and Japan could be due to a number of educational and cultural differences between our two countries. We

are certainly interested in learning more about the Japanese system and, in fact, have set up a meeting in April 1991 with Japanese officials in order to discuss it with them.

It is important to note, however, that the National School Lunch Program--NSLP--is already available to the vast majority of our Nation's children. The Program is currently operated in over 95 percent of the public schools in the United States, as well as in a significant number of private schools, and provides nutritious, well-balanced meals to over 24 million children a day. The fact that so many children choose to eat an NSLP lunch given the other options available, including a bag lunch from home, a la carte offered at school or an off-campus meal, shows the strength of the program.

It is also important to note that many more U.S. children participate over the course of the week than on a given day. Survey data from the National Evaluation of School Nutrition Programs-2 show that while 66 percent of children eat on a given day, nearly 78 percent eat an NSLP lunch during the course of a week.

SCHOOL LUNCH/DIETARY GUIDELINES

Question: Last fall, USDA and the Department of Health and Human Services jointly released the third edition of the Dietary Guidelines for Americans. This is very important because the Guidelines are now intended for healthy Americans ages two years and over.

I understand the school food services folks are most willing to make necessary changes in the school lunch and school breakfast programs by using less salt, fat and sugar; however, it is obvious that when you reduce the fat content in foods, you are reducing calories. Those calories must be replaced by additional protein or carbohydrates if you are to provide the amount of calories demanded by young growing bodies. The additional quantity of these foods will cost money.

Does the 1992 budget request take this into account?

Answer: The 1992 Budget does not include any specific funding related to the cost of implementing the Guidelines. It is too early to know what specific changes will be necessary to fully implement the newly revised Dietary Guidelines for Americans in child nutrition programs or how changes will affect costs.

Implementing the guidelines could actually cause food costs to go down. For example, the meal pattern could be changed to require less meat/meat alternate and more complex carbohydrates. This type of change could result in a lower cost per meal since grain products such as pasta or bread have a lower cost than many meat/meat alternate products, which are major sources of dietary fat.

Guidance for implementing the new Guidelines will be disseminated in the spring of 1992. We are carefully considering the cost implications in developing the guidance. In addition, the Department intends to implement changes stemming from the new

Guidelines in such a fashion that participation is not adversely affected.

Question: Would you support an increase in the Federal school lunch reimbursement rates to cover these additional charges?

Answer: It is premature for the Department to take a position on that issue because we do not yet know the final structure of the dietary guidance.

FOOD SERVICES MANAGEMENT INSTITUTE

Question: The budget requests $1,143,000 for the Food Service Management Institute in Mississippi. Would you please bring me up to date on the status of this Institute and advise how funds will be used in 1992.

Answer: The National Food Service Management Institute was established in March of 1990 through a cooperative agreement between the U.S. Department of Agriculture (USDA) and the University of Mississippi. The University of Southern Mississippi administers the Research Division of the Institute through a subcontract with the University of Mississippi. Activities during the first year of operation included the formation of two advisory boards, the recruitment of key personnel, and the development of a long range strategic plan and statement of work for Fiscal Year 1991. It is anticipated that the position of Executive Director will be filled by July 1991. Currently, negotiations are taking place between USDA and the University of Mississippi to finalize the agreement for the second year of operation. Major programs which are being initiated in Fiscal Year 1991 include:

- to develop the "train the trainer" program and conduct the initial session of training;

- to establish a clearinghouse of information on food service training and the information developed by the Institute to be activated in May of 1991. Negotiations are currently underway to coordinate the clearinghouse in conjunction with the National Agricultural Library;

- to develop two training seminars to be held at the Annual meeting of the American School Food Service Association in July of 1991; and

- to conduct research to identify factors which have the greatest impact upon productivity, including labor costs.

The statement of work for Fiscal Year 1992, to be developed by the Institute, will be submitted to USDA in December of 1991. Projects for this period, therefore, have not yet been proposed. It is anticipated that many of the projects initiated during Fiscal Year 1991, such as the "train the trainer" program, clearinghouse activities, and research studies to determine future needs in school food service will continue into the following year.

SECTION 4 FUNDING

Question: In previous years, Congress has rejected the budget requests to entirely eliminate Section 4 funding. This year's proposal is to cut the Section 4 reimbursement rate by 6 cents per meal. Schools maintain these are their base funds, and many could not operate without them.

Section 4 funding was reduced in the 1981 Omnibus Reconciliation Act and we witnessed a significant drop in paid meal participation in the School Lunch Program. Is the Department concerned that its proposal to transfer funds from paid meals to reduced price meals will result in a drop in paid meal participation?

Answer: The changes enacted by the Omnibus Budget Reconciliation Act of 1981 (OBRA) are not comparable to the President's Budget proposal. OBRA reduced cash subsidies for paid and reduced price meals and reduced commodity subsidies for all meals. OBRA saved approximately $1 billion in the first year of implementation. The President's proposal to transfer funds from paid meals to reduced price meals, in contrast, maintains funding at current services levels.

The proposal to decrease the maximum charge for a reduced price lunch from 40 cents to 15 cents and for a reduced price breakfast from 30 cents to 10 cents would benefit children in the 130 to 185 percent of poverty level. It would encourage more households from this income category to submit applications and participate in the programs. The number of applicants for meal benefits could increase by an estimated quarter million children.

We anticipate that schools will increase the cost of meals for paid students in response to the reduction in subsidies. This will lead to some reduction in paid meal participation, and a small reduction in the total number of meals served. This decrease is often referred to as student "dropout"; however, we anticipate that paid students will not "dropout", but will decrease participation, on average eating 8 fewer program supported meals over the course of a year.

How individual schools fare under this proposal will depend on two factors: the income distribution of their students and their success in attracting previously nonparticipating children. The big winners under this proposal will be schools that can reach children who are eligible for reduced price benefits, but who have chosen not to apply in the past.

PAPERWORK BURDENS

Question: The policies of "reducing paperwork burdens" and "program accountability" often seem to be in conflict. The Department has asked for increased funding for the Federal Review System in order to audit School Nutrition Programs for "increased accountability". At the same time, school food service officials have indicated that they are inundated with audit requests from local, state and federal agencies. Do you have any advice or

suggestions on how paperwork can be reduced, duplication avoided and still keep these programs accountable?

Answer: Because the Child Nutrition Programs are entitlements, strong accountability is required to ensure costs are controlled. The Department, however, is very sensitive about balancing the need for accountability and the administrative burden on State and local agencies.

In recent years we have implemented a number of provisions which reduce the burden on school food authorities. Some of this reduction has been possible because of changes in the law regarding determinations of eligibility for free and reduced price meals. Two provisions currently reduce the amount of time school officials spend on certification: households certified for food stamps or AFDC benefits can apply for free meals on the basis of "categorical eligibility," providing their case number in lieu of income information for the household; and we are implementing the "direct certification" provision of P.L. 101-147, whereby Schools can contact food stamp or AFDC offices directly to obtain eligibility information.

With respect to review activity in the school nutrition programs, we have proposed a regulation to establish a coordinated Federal/State review system. Under the proposed system the vast majority of school districts would be subject to review only once every five years. Fewer than one in ten schools would be subject to State or Federal review in a given year. We believe this system will alleviate some of the concerns that local administrators have about overlapping reviews. We must emphasize, however, that reviews and audits are an integral part of ensuring that claims for Federal reimbursement are based on accurate counts of meals served to eligible children.

COORDINATED REVIEW EFFORT (CRE)

Question: Last December 21, the Department published a comprehensive regulation entitled "Coordinated Review Effort" (CRE). It is my understanding that the comment period on the proposed rule has been extended to April 5, 1991. I recognize that the final rule may be significantly different from the proposed rule, but I would like to mention that a lot of concern has been expressed over the proposed rule. Why isn't it possible to develop a system that is more flexible and easier to administer?

Answer: We believe the proposed Coordinated Review Effort regulation does have features that allow more flexibility and ease of administration.

For example, the proposed regulation would extend the review cycle for small school food authorities by one year, changing the current 4-year cycle to a 5-year cycle. Furthermore, the proposed regulation would relieve States of the responsibility for reviewing school food authorities which FNS has already reviewed or intends to review during the same review cycle. FNS also contemplates conducting some of the followup reviews required for problem school food authorities. Finally, the scope of the review presented in the

proposed regulation represents a more structured and organized approach to reviewing a school's entire school lunch program.

Question: The school lunch program has no error-rate tolerance system; the program requires daily meal counts even when many schools no longer take attendance; and now there is CRE. Can't we streamline the administration of the school lunch program, and eliminate much of the record keeping?

Answer: Since it is an entitlement program we have a clear responsibility to account for Federal funds provided to program operators. Meal counts are required to ensure that children receive meals before Federal reimbursement occurs. However, the Department is interested in ways to improve efficiency in administering meal count requirements, and is currently conducting pilot projects in a variety of school districts to test alternate meal counting and claiming procedures. The results of these test projects should permit the Department to refine current requirements in this area with consequent reductions in record keeping burdens.

ADP SYSTEMS

Question: I'm also hearing some concerns from WIC program folks regarding the need for updated automated data processing systems and equipment for State WIC and Commodity Supplemental Food (CSF) programs. So many changes in technology have occurred in recent years and up-to-date computerized management information systems are essential to increase these programs' productivity.

You have the authority to set aside funding for grants to states to upgrade their ADP systems. Do you intend to use this authority?

Answer: Authority was established in the Child Nutrition and WIC Reauthorization Act of 1989, P.L. 101-147, to set aside up to $2 million of WIC's annual appropriation for grants to State agencies to upgrade their ADP systems. However, the Department chose not to exercise this authority. Recognizing limited WIC funding resources and rising food prices, the Department decided that all available funds are better directed toward food benefits and direct client services. This helps to stabilize and to increase total WIC participation.

Under P.L. 101-147 the amount of the appropriation used for Nutrition Services and Administration--NSA--must be based on a national administrative grant per person. Due to this provision, the amount of funds allocated for NSA has increased from 20 percent of the WIC appropriation in Fiscal Year 1989, to 22.4 percent of total available funds for Fiscal Year 1990 and 23.3 percent for Fiscal Year 1991. This increase in NSA funding has helped State agencies upgrade their ADP systems and equipment, a vital and necessary NSA expenditure.

Additionally, a discretionary administrative allocation is provided by the regions through the NSA funding formula for special State agency projects and needs. Many State agencies have been given additional discretionary monies to fund ADP system and equipment requirements.

With these increased resources, States have been able to undertake significant efforts to improve their ADP systems without a specific amount set aside for that purpose.

Question: Does your proposed budget request funding for this purpose?

Answer: The proposed Fiscal Year 1992 budget does not request funds to be set aside specifically for WIC ADP systems and equipment, because the Nutrition Services and Administration grant has been recalculated and has increased from 20 percent in Fiscal Year 1989 to over 23 percent in Fiscal Year 1991.

INFANT FORMULA

Question: Legislation (S.657/Leahy) has been introduced which creates seven regions, and requires the infant formula companies to bid directly to USDA for an exclusive contract with these regions. As you know, Mississippi requires a direct price rebate since our state WIC Program distributes supplemental food packages directly to participants. How will this affect the bid for Mississippi's price rebate as compared to the other states in the Southeastern region?

Answer: States currently have the option to act in concert to contract for better rebates on infant formula. Efforts by States in New England have not as yet produced significant savings, while three States in the Mid-Atlantic region have achieved some reduction on earlier individual efforts.

S. 657 provides a waiver from participation in the regional contract for States which do not use a retail purchase system to buy infant formula. The waiver provision states that the Secretary could waive a State's participation in the regional contract "if the State could likely purchase infant formula at a discount equal to or greater than the anticipated regional contract price discount, or if the State demonstrates to the Secretary that the administrative burdens of such a combined system are not cost effective."

In the case of Mississippi, if the price of infant formula under its direct distribution system is as good as the price paid under the regional contract, it appears the law would allow Mississippi to continue to use its direct distribution system instead of using the regional contract. However, even if Mississippi were to participate in a Regional contract, the State might be able to integrate the formula obtained through the Regional contract into its direct distribution system.

HUMAN NUTRITION INFORMATION SERVICE

QUESTIONS SUBMITTED BY SENATOR BURDICK

IMPLEMENTATION OF NATIONAL NUTRITION MONITORING AND RELATED RESEARCH ACT OF 1990

Question: What other agencies are involved in implementing the National Nutrition Monitoring and Related Research Act of 1990 and what are their roles?

Answer: The U.S. Department of Agriculture (USDA) and the Department of Health and Human Services (DHHS) are the two Departments specified in the National Nutrition Monitoring and Related Research Act of 1990 (P.L. 101-445) to implement the requirements. Implementation will be carried out through the guidance and overall direction and coordination of the Interagency Board for Nutrition Monitoring and Related Research. Federal agencies play both an active role in sponsoring nutrition monitoring activities as well as being users of nutrition monitoring data. The functions and member Federal agencies of the Interagency Committee on Nutrition Monitoring, which was formed in 1988, have been incorporated into the Interagency Board. Member Federal agencies from USDA include the Human Nutrition Information Service, Agricultural Research Service, Food and Nutrition Service, and Economic Research Service. Member agencies from DHHS include the Office of Disease Prevention and Health Promotion, National Institutes of Health, Food and Drug Administration (FDA), Center for Chronic Disease Prevention and Health Promotion and National Center for Health Statistics--Centers for Disease Control. Other member agencies include the Agency for International Development, Bureau of the Census, Bureau of Labor Statistics, Department of Defense, and Veterans Administration. In addition, membership of the Interagency Board is being expanded to include additional agencies that generate or use monitoring data including Indian Health Service, Health Resources and Services Administration, Alcohol, Drug Abuse, and Mental Health Administration from DHHS; Cooperative State Research Service and Extension Service from USDA; National Aeronautics and Space Administration, National Marine and Fisheries Service, and Environmental Protection Agency (EPA).

HNIS INVOLVEMENT IN PESTICIDE DATA PROGRAM

Question: What involvement does the Human Nutrition Information Service have in the USDA Pesticide Data Program?

Answer: HNIS has a very important role in USDA's Pesticide Data Program. We will determine the quantities of specific commodities consumed by the general population and population subgroups. This information is based on data from our Food Consumption Surveys, and a computerized system which disaggregates the complex mixtures people eat (pizza) and reaggregates them to estimate the quantities of commodities consumed. These data can be combined with data on pesticide residue levels in foods to estimate potential exposure of the population to specific pesticides. HNIS is working with the other USDA agencies involved in the Pesticide Data Program as well as with EPA and FDA to ensure that the data produced will meet their needs.

Question: What progress has been made in the HNIS role of the Pesticide Data Program?

Answer: HNIS is right on schedule with the development of its computerized system to determine the quantities of commodities consumed by the U.S. population. This system will convert data from our survey which show the quantities of complex food mixtures consumed by individuals back to the commodities of which these foods are composed. We are working closely with agencies within USDA (AMS, ERS, and NASS) and with EPA and FDA to ensure coordination and to meet the data needs of these users. So far, HNIS has completed 3 reports, including: 1.) baseline analysis, 2.) requirements analysis and 3.) functional design alternative. This work on software system development has been contracted through the General Services Administration.

DIETARY GUIDELINES FOR AMERICANS

Question: How is USDA informing the public about the Dietary Guidelines for Americans?

Answer: USDA is informing the public as follows:

- o The release of the Dietary Guidelines for Americans was announced by the Secretaries of Agriculture and Health and Human Services in a joint press conference in November 1990.

- o The Dietary Guidelines bulletin is being distributed in several ways:

  - HNIS has made over 1 million copies available for free distribution to consumers through the Consumer Information Center.

  - Large quantities can be ordered through the Superintendent of Documents ($44/100 or $300/1,000).

  - Color negatives are available from the Government Printing Office for those who want to print their own and several professional and industry groups are printing their own.

  - Black and white reproducibles are also available.

  - A Spanish version of the Guidelines is in development.

- o The Guideline concepts are also being promoted in several ways:

  - Over 4,000 press kits and/or notification copies have been sent to professional associations involved in food, diet and health, to major magazines, newspapers and other media contacts, to commodity and food industry groups, to Congress, Governors, State Health Departments, and Commissioners of Agriculture.

  - We are working with the Food Marketing Institute to produce a condensed version of the Guidelines for distribution through grocery stores.

- The bulletin has been offered with responses by the Internal Revenue Service to requests for tax supplemental forms.

- Speeches and interviews about the Guidelines are being given at professional meetings and on local and national radio and TV shows.

o To help people put the Guidelines into action in their daily food choices, HNIS will soon be releasing a new presentation of its Food Guide, called the Eating Pyramid. It will replace the old Basic Four. We are hoping to coordinate with many other groups to bring this message to the public.

o Other publications from HNIS will bring the Dietary Guidelines message to certain high risk population:

- teens: through a curriculum guide for health educators, a joint project with the American Association for the Advancement of Health Education.

- low-literacy audiences: nutrition education publication that gives Dietary Guidelines information for adults with low-literacy skills.

- elderly: joint project with DHHS's National Institute on Aging.

o The "Eating Right the Dietary Guidelines Way" campaign initiated by HNIS in July of 1989 continues to bring the Dietary Guidelines message to the public through contacts with the media, professional associations, and other public and private sector groups.

SUBCOMMITTEE RECESS

Senator BURDICK. This concludes today's hearing. Our next hearing will be held on Tuesday, April 16, in this same room at 10 a.m. The subcommittee will receive testimony from the Farmers Home Administration, the Federal Crop Insurance Corporation, and the Rural Electrification Administration. From now until that time, the subcommittee stands in recess.

[Whereupon, at 11 a.m., Friday, March 22, the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, April 16.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

TUESDAY, APRIL 16, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Kerrey, and Specter.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

ROLAND R. VAUTOUR, UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT

WALTER E. HILL, ASSISTANT UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT

ACCOMPANIED BY DENNIS KAPLAN, BUDGET OFFICER

FARMERS HOME ADMINISTRATION

STATEMENT OF LA VERNE AUSMAN, ADMINISTRATOR

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF JAMES E. CASON, MANAGER

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF GARY C. BYRNE, ADMINISTRATOR

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearings on the fiscal year 1992 budget for Agriculture, Rural Development, and Related Agencies. We will review the budgets for the Farmers Home Administration, the Federal Crop Insurance Corporation, and the Rural Electrification Administration.

Our witnesses are Roland R. Vautour, Under Secretary for Small Community and Rural Development; Walter E. Hill, Assistant Under Secretary; La Verne Ausman, Administrator, Farmers Home Administration; James E. Cason, Manager, Federal Crop Insurance Corporation; Gary C. Byrne, Administrator, Rural Electrification Administration; and Dennis Kaplan, Budget Officer of USDA.

Welcome to you all. I would like to make a special welcome to Mr. Cason, as the new manager of the Federal Crop Insurance Corporation, who is making his first appearance before this subcommittee.

FmHA, REA, and FCIC are three agencies that each have a major impact on rural America. Farmers and other rural Americans are keenly interested in the programs administered by these agencies and the budgets for operating these programs.

We have statements from the heads of each agency and the Under Secretary. They will be made a part of the record in full. Secretary Vautour, I will ask you to make your oral statement first, after which we will entertain questions from the subcommittee for each of the agencies.

Mr. Vautour. Did I pronounce that right?

Mr. VAUTOUR. That is correct.

Senator BURDICK. You may proceed.

FMHA REQUEST

Mr. VAUTOUR. Thank you, Mr. Chairman. I would like to submit my prepared statement for the record and just give you a few highlights of the budget or a summary, if you will, of the budget that we are submitting, by agency, and I will not take a whole lot of time. But my prepared statement will be submitted for the record.

Senator BURDICK. It will be received for the record.

Mr. VAUTOUR. In the Farmers Home Administration we have made what, in my judgment, is a major move to return to what the Farmers Home Administration was and had been over the years, and that is a lender of last resort, using modest amounts of supervised credit.

In order to do that, Mr. Chairman, it is going to require a considerable amount of training. It is going to require a considerable amount of work on the part of our county supervisors, which in my judgment is where the program is really delivered.

In order to accomplish that, we continue to emphasize the guaranteed loan program, which is not a substitute for the county supervisor, but uses the facilities of the private sector to make and service loans, and to work the loans out. We feel this approach gives the county supervisors more time to devote to the farmer, and to the disadvantaged farmer, the minority farmer, if you will, and especially the beginning farmer.

We feel that the guaranteed loan program will go a long way toward accomplishing that. Along with that, we have a major initiative called the field office of specialization project, which is going to streamline the delivery of programs, again freeing up time for the county supervisor to actually work with the farmer and with the individual beginning farmers.

The average age of the American farmer is approaching 55 years old, and we feel the Farmers Home Administration has a responsibility to work with beginning farmers, with young farmers, with disadvantaged farmers, and with farmers of limited resources. And that is the direction in which we want to take the Farmers Home Administration, and the budget that we have submitted for Farmers Home will accomplish that.

REA REQUEST

Second, with regard to the Rural Electrification Administration, it is our judgment that this agency has succeeded in a spectacular fashion in getting both electricity and telephone service to rural America. The need for these services continues. We recognize that, and this administration is dedicated to a continuation of the Rural Electrification Administration and to the delivery of its programs, but not necessarily as it has over the last 56 years.

We are trying to fine-tune the program for the needs of today. Along with that, we have continued to expand upon the direction which went to a guaranteed program for distribution systems as well as for generation and transmission borrowers.

We recognize clearly that there are areas in this country that desperately need the help of REA. For those that have low consumer density the cost of stringing those lines is very high, and we recognize their need and we have provided a safety net for those borrowers truly needing financing at highly subsidized rates.

There are many, many cooperatives who can afford to pay close to market rates, with a guarantee from the Rural Electrification Administration. We feel we can help them acquire adequate capital and then concentrate REA direct loans to those cooperatives in those areas in the United States that desperately need that help.

The telephone borrowers, in my judgment, are in great financial shape, and the loan program is in good shape. There are no troubled telephone borrowers and there are only six troubled electric borrowers. We think the approach we are proposing in the budget will go a long way toward accomplishing the needs of rural America for power and for up-to-date, modern telecommunications. Without that, we cannot have rural development, and in my judgment rural economic development is definitely needed at this point.

FCIC REQUEST

The Federal Crop Insurance Corporation. We have requested full funding and we again, at the direction of Congress and at the direction of the contents of the farm bill, are told to fix the program, and we intend to do just that, Mr. Chairman.

We intend to fix it so that the farmer can use Federal Crop Insurance as a method of risk management and risk control. We all know that farming is a very high risk enterprise. Mr. Cason can explain in detail his plans to implement the crop insurance provisions of the 1990 farm bill and highlight additional program improvements.

Basically, we are trying to bring the program into actuarial soundness as directed by Congress.

RDA REQUEST

Finally, but by no means last, the Rural Development Administration that was established by the farm bill of 1990. We supported that provision. We think that it makes good sense. We think that the Rural Development Administration is desperately needed to coordinate Federal Rural Development activities such as the President's initiative on rural development. We think we can offer very positive assistance to rural communities.

I would point out quickly that the creation of the Rural Development Administration will not impact the county office structure of the Farmers Home Administration. It will certainly affect the administration of community and business programs since those were the programs that the law mandated we move. But we in no way intend, nor will I sit still for the impacting, adversely or otherwise, of the county offices. Again, as I said earlier in my comment, it is my opinion that the county office of the Farmers Home Administration is where the rubber meets the road. That is where we deliver the program, and there is no way that it would adversely impact that delivery system.

Generally, we look for the Rural Development Administration to accomplish a lot of the coordination that we believe is desperately needed in the delivery of rural development programs. There are some 13 or 14 programs in the U.S. Department of Agriculture alone that have a mission in one form or another in rural development, and the Rural Development Administration, we think, can go a long way toward coordinating those efforts.

With that, Mr. Chairman, I would conclude my comments. I will be available for any questions from you, Mr. Chairman, or any members of the subcommittee, and any specific questions with regard to the agencies I would direct to the gentlemen that are here as administrators of those agencies.

PREPARED STATEMENTS

Senator BURDICK. Thank you. We have statements from the heads of each agency and the Under Secretary. They will be made a part of the record in full.

[The statements follow:]

STATEMENT OF ROLAND R. VAUTOUR

Good morning, Mr. Chairman and members of the Committee. I appreciate the opportunity to present the highlights of the fiscal year 1992 budgets of the Farmers Home Administration (FmHA), the Rural Electrification Administration (REA), and the Federal Crop Insurance Corporation (FCIC). I am also here to discuss the request for the Rural Development Administration (RDA), a proposed new agency now in the planning phase. With me today are Walter E. Hill, Assistant Under Secretary for Small Community and Rural Development; La Verne Ausman, Administrator of the Farmers Home Administration; Gary C. Byrne, Administrator of the Rural Electrification Administration; James E. Cason, Manager of the Federal Crop Insurance Corporation; and Dennis Kaplan, Chief of the Budget Control and Analysis Division, USDA. I ask that our prepared statements be submitted for the record.

As you know, the 1990 Food, Agriculture, Conservation, and Trade Act (FACT Act) directs the Secretary of Agriculture to transfer from the Farmers Home Administration the Community, Business, and Rural Development Grant and Loan programs to the Rural Development Administration. We include the RDA in our proposed budget because we believe in it. We believe that it will be a vital part of America's rural development effort. Combined with the Presidential Initiative on Rural Development, the creation of the Rural Development Administration will improve coordination and delivery of rural economic development programs to rural communities.

Our funding request for the administrative costs of the Rural Development Administration is meant to be budget neutral; there are no new costs associated with it. We plan to have a fully functional Agency carrying out the duties of the present FmHA Community and Business programs on or about October 1, 1991. The transition into the proposed Agency will be accomplished with a minimum amount of disruption to the program delivery. We do not foresee that the transfer will have any adverse effects on the operations of the FmHA county offices. In fact, it will permit the Farmers Home Administration—County Supervisors and State office employ-

ees—to concentrate on efficiently serving the farmers and rural citizens of America through the remaining FmHA Farmer and Rural Housing Programs.

Unlike past years, when the Administration proposed deep cuts in the Community and Business programs that the RDA will administer, the 1992 Budget provides substantial support for these programs—more than actually used in 1990.

Next, I would like to outline the budget submission of the Farmers Home Administration. For over 55 years the Farmers Home Administration has provided counseling, technical, and financial assistance to strengthen rural America and provide adequate, healthful shelter for rural citizens who would otherwise be living in substandard housing or coping with finding housing in areas where no affordable housing exists.

Our 1992 request continues this mission and reflects recent passage of major legislation such as the 1990 Food, Agriculture, Conservation, and Trade Act; the 1990 Cranston-Gonzalez National Affordable Housing Act; and the Omnibus Budget Reconciliation Act of 1990 (OBRA), which legislated credit reform. Passage of the FACT Act has established a secondary market for Farmers Home Guaranteed Farm Program loans by authorizing Farmer Mac to market these loans. This should result in more competitive interest rates for farmers and will enhance the availability of loan funds. Our housing programs emphasize an expanded guarantee program with interest assistance to reach a wider spectrum of housing applicants with guaranteed loans.

Consistent with loan levels specified in OBRA, the Farmers Home Administration proposes to retain direct farm loan programs at reduced levels. These levels should be sufficient to meet the needs of borrowers who are socially disadvantaged or have limited resources, and will also assist new farmers. Our legislative package asks Congress's guidance in targeting these scarce resources. Guaranteed loans will help other borrowers and will further expand rural Americans' access to private credit sources.

Interest-assisted guaranteed loans for farm ownership, farm operating loans and single family housing loans will be targeted to rural Americans who would not qualify for private sector financing without such help. This not only improves the market orientation of government-assisted credit supplied to rural areas, it also relieves Farmers Home personnel from a portion of the loan making and loan servicing responsibility. This in turn frees them to work on other, more vital, responsibilities such as providing assistance to needier borrowers and improving the servicing of direct loan accounts.

We plan to develop and pilot test new and more efficient ways of serving our borrowers. Our Field Office Specialization Project, which we plan to initiate in 1991, is designed to enhance the consistency and quality of technical and financial assistance to our borrowers. The project will ensure that all borrowers are treated equitably across the country and will improve the borrower's chance of success. It will help our staff develop expertise in resolving serious delinquencies, and in managing inventory property. But most important, it provides more professional services for the borrower.

The FmHA budget request represents a continued commitment by the Administration to those rural Americans who depend on the Federal Government to meet their temporary needs for financial assistance.

Now, I would like to address the budget request for the Rural Electrification Administration. Since inception, the REA has made significant contributions to the development of rural America. The availability of REA funds, technical assistance, and expertise has brought modern electric and telephone service to rural areas. Today, American farm communities are the most productive and efficient in the world.

REA has also made significant progress in achieving the Congressional and Administration's goal of assisting borrowers to develop the financial strength needed to satisfy their credit needs from other sources. Through REA's financial support, borrowers who depended on Federal subsidized loans have been transformed into strong financial institutions. Most borrowers finance the majority of construction through internally generated funds or capital provided by private sources, such as the borrower-owned National Rural Utilities Cooperative Finance Cooperative and the National Bank for Cooperatives (CoBank).

The budget proposal for REA acknowledges the growth and maturity of the electric and telephone systems by proposing to continue the risk-sharing guarantee program established in the Omnibus Budget Reconciliation Act of 1990. It also recognizes that some borrowers may not be able to obtain private financing. The budget proposal includes a safety net of direct Federal loans for these borrowers. REA would target loans to borrowers most in need of subsidized credit. REA would look not only at the financial and operating characteristics of the electric and telephone

borrowers themselves, but also at the economic and demographic factors of the areas they serve.

Our goals are to provide supervised credit to REA borrowers and to encourage borrowers who are financially able to enter private credit markets. These goals are consistent with the traditional mission of the agency. They can be achieved at minimal cost to consumers and would make a positive contribution toward deficit reduction.

Finally, Mr. Chairman, I would like to discuss the budget submission for the Federal Crop Insurance Corporation. The legislative changes made in the FACT Act and directives of the 1991 Agriculture Appropriations Act articulate Congressional intent to improve the crop insurance program.

Consistent with these directives, we are proposing to continue funding for the crop insurance program in fiscal year 1992. In addition, we will submit legislation to include the cost of program delivery in the premium base and to reduce the premium subsidy to farmers. If adopted, these changes would result in premium determinations that are more consistent with private sector practices.

Further, the proposal would facilitate competition between reinsured companies by allowing them to reduce administrative costs and directing the savings to farmers through lower premiums. If enacted, projected Federal costs for fiscal year 1992 would be reduced from $868 million to $685 million, a savings of $183 million.

I have given the manager of FCIC the following policy direction to guide FCIC's day-to-day decisions: pursue program commitments that are fair and equitable for the taxpayer, farmer, Federal Government and our private sector delivery partners; maintain a clear focus on our constituency—the farmer who is legitimately pursuing successful farming operations and who needs Federal crop insurance to guard against the adverse impacts of natural disasters; ensure availability of crop insurance to all farmers where policies are offered; offer policies that meet real farmer needs and balance affordability with a premium requirement that is commensurate with the risk represented by the individual insured; take measures to achieve actuarial soundness through: annual premium rate adjustments, improvements in policies and loss adjustment procedures, and review of other key factors influencing the financial performance of the program; adhere to insurance principles generally accepted in the private sector business environment; strive for long-term stability through a program that balances the benefits provided by crop insurance and the costs of making the coverage available; and constrain the administrative costs associated with program development, oversight, and delivery.

We welcome the challenge to improve the crop insurance program.

In closing, I believe the Department's request is a reasonable, responsible and fair approach to serving the needs and interests of the farmers and rural citizens, as well as the taxpayers. Mr. Chairman and Members of the Committee, this concludes my prepared statement. We will be pleased to answer any questions you may have.

STATEMENT OF LA VERNE AUSMAN

Good morning, Mr. Chairman and Members of the Committee. I welcome this opportunity to discuss the proposed fiscal year 1992 budget for the Farmers Home Administration

I would like to present my testimony in two parts today. First, I'd like to talk about the historical performance of Farmers Home, particularly how the Agency came through fiscal year 1990; and second, I'd like to address the specifics of our 1992 budget request.

Farmers Home ended fiscal year 1990 with nearly one million active borrowers and with direct and guaranteed loans outstanding totaling almost $58 billion. In 1990, the Farmers Home Administration also achieved a milestone, 55 years of service to rural America! During those years, Farmers Home has approved more than 10 million loans and grants totaling more than $162 billion.

Many farmers, homeowners and residents of rural communities have benefited from these loans and grants over the years. Interestingly enough, the current outstanding portfolio represents in dollars approximately 36 percent of the total Farmers Home lending over the years.

At the end of fiscal year 1990, farm loans accounted for $24 billion of the Farmers Home loan portfolio, including more than $4 billion in guaranteed loans. Full implementation of the Agriculture Credit Act of 1987 meant that efforts were continued to resolve the problems of the 91,000 farm borrowers who were seeking to have their debt restructured and their loans restored to a current status. The processes prescribed by the Act are at work.

Since enactment of the Agricultural Credit Act of 1987, through the period ending November 30, 1990, Farmers Home has resolved in excess of 72,000 of its 91,000 Farmer Programs problem borrower accounts. Of those, 18,942 paid current, 6,178 paid in full, 28,352 received Primary Loan Servicing, 15,407 were debt settled, and 3,336 liquidations were completed.

A number of cases are still in the mediation and appeals process, still others are awaiting borrower decisions such as whether to pursue buy-outs, and we have yet to hear from some borrowers.

FARM PROGRAMS

I am pleased to report that farm loans made during fiscal year 1990 totaled $2.3 billion, with guaranteed loans accounting for nearly 55 percent of this total. This marks the fourth consecutive year in which guaranteed farm loans accounted for more than half the total dollars.

In 1991, two special forms of assistance for farm borrowers, "Operation Assist" and the Interest Rate Buy-Down Program, are being continued. "Operation Assist" requires that County Office staff assist the borrowers in completing loan applications and bank forms, and personally assist them in obtaining a guaranteed loan from a bank or cooperative lender. The Interest Rate Buy-Down Program has been modified from a matching program to a unilateral buy-down by FmHA of up to four percent.

HOUSING PROGRAMS

Nearly $2.6 billion went to housing programs during 1990 to provide decent, safe and sanitary housing in rural America. Farmers Home ended 1990 with $28.6 billion outstanding for rural housing loans to 758,000 borrowers. Nearly $1.3 billion went to subsidized single-family loans for low-income people in rural areas, while nearly $572 million went to multi-family housing loans for persons with very low, low and moderate incomes and for those age 62 and older in small communities.

COMMUNITY AND BUSINESS PROGRAMS

Farmers Home community and business programs ended fiscal year 1990 with a portfolio of 10,000 borrowers and $5.3 billion in loans outstanding. The Agency approved more than $563 million for loans from the Rural Development Insurance Fund, while rural development grant programs, particularly for water and waste disposal, amounted to more than $228 million, an increase of nearly 77 percent over 1989.

All in all, 1990 was a busy year for the Farmers Home Administration in living up to its mission to provide supervised credit and technical support for rural Americans.

I can assure you that we're not resting on our accomplishments. We have an aggressive program this year to increase the access to the private credit markets for some of our individual borrowers with good repayment ability. In our field operations we are preparing a pilot field test of more efficient field office operations through specialization.

FIELD OFFICE SPECIALIZATION PROJECT

This Field Office Specialization Project, known as FOSP, is a 14-state test program designed to provide better delivery of service to borrowers and to make more effective use of Government resources. The objective is to relieve County Offices of certain responsibilities in order to give them more time to provide essential supervised credit through technical assistance and counseling to Farmer Program and Single Family Housing borrowers.

Under this project, appraisals, underwriting, servicing seriously delinquent loans and managing and selling inventory property will be carried out by specialized staffs. We believe this approach of developing small staffs with special expertise to handle specific aspects of loan making and servicing is the most efficient and cost-effective use of these resources.

The 1991 budget contained funds to begin this project and the current 1991 estimate includes funding for 300 staff-years for the project based on anticipated mid-year hiring of 500 employees to improve Farmers Home loan making and servicing. Plans call for 425 employees to be hired to establish the specialized staffs. The remaining 75 positions will be provided to the Office of the General Counsel to relieve the backlog of Farmer Program loans currently requiring legal processing.

The Field Office Specialization Project is designed to enhance the consistency and quality of appraisals and to respond to Federal directives relative to appraisals, to ensure that all borrowers are treated equitably, to improve the borrower's chance of success, to ensure better quality loans, to develop expertise in resolving serious delinquencies, and to manage and sell inventory property in an efficient professional manner.

1992 BUDGET REQUEST

Now I'd like to set the stage for discussing the Agency's 1992 budget request. We believe it is both timely and necessary to look hard at our programs and redirect programs, where appropriate, to provide the maximum benefits to the farmers, ranchers and rural residents we are mandated to serve. In keeping with the budget summit agreement, our request for farm ownership and farm operating funding is in accordance with the Budget Reconciliation Act.

We are affirming our belief that the Federal Government cannot and should not continue to be a major source of credit for the Nation. That is a proper role for the private sector. This Budget reflects the continuing commitment of the Administration to reducing dependence on Federal Government credit, while, at the same time, integrating the use of creative measures in guaranteed loan programs to expand access to private sector credit.

The new credit reform requirements have significantly altered the Farmers Home budget request for 1992. The budget authority and outlays for all programs reflect an estimate of the net present value of the cost to the government over the life of the loans. These subsidy costs include interest subsidy, and the costs of estimated delinquency and default. In addition, appropriations are requested for each loan program for the annual cost of administering all existing and new loans. Total subsidy costs for the proposed 1992 Farmers Home loan programs are estimated to be $682 million, while the administrative funding requested is $682 million.

FARM PROGRAMS

The budget adapts OBRA levels authorized for farm ownership and operating loans. A total of $3.5 billion is proposed for new farm program loans in 1992, of which $2.8 billion is guaranteed. In 1992, $564 million in guaranteed operating loans and $50 million in guaranteed ownership loans are estimated for the interest-assisted program.

The interest assisted program, included in the Farm Bill and the Omnibus Budget Reconciliation Act, provides up to four percentage points of interest rate relief to farm program borrowers, and also removes a requirement of the private lender to contribute half the reduction in interest charged the borrower. The interest assistance program should facilitate the shift of existing direct loan borrowers to commercial credit and should allow the Agency to serve new borrowers under the guarantee program.

In accordance with provisions of the 1990 Farm Bill, Farmers Home is publishing regulations strengthening the ongoing market placement program known as "Operation Assist." As mentioned earlier, under this program, Agency staff will continue to work with borrowers and local banks to prepare the borrower's application and help secure commercial credit guaranteed by the Farmers Home Administration.

FARM OPERATING LOANS

The operating loan level proposed for 1992 totals almost $3 billion, compared to actual operating loan obligations in 1990 of $1.6 billion. Reductions in direct lending are offset by the increase in interest assisted guarantees.

FARM OWNERSHIP LOANS

The 1992 budget provides $150 million in unsubsidized guarantees for farm ownership loans and $50 million for subsidized farm ownership guarantees. Direct ownership loans totaling $37 million are targeted to the most financially needy borrowers and socially disadvantaged applicants.

New loan authority of $25 million is being requested for emergency disaster loans which is consistent with expected usage of this program. Loans for sale of inventory property in 1992 are estimated at $250 million and, under new credit reform provisions, are requested as new loan authority.

The Agency will again propose legislation to limit the number of years borrowers will be eligible for direct and guaranteed loan assistance. Our target is to shift our

borrowers to commercial credit so that Farmers Home can return to its roots and again serve as a source of temporary credit.

HOUSING PROGRAMS

Our fiscal year 1992 request for housing programs will provide assistance for about 63,000 housing units in rural areas. We are encouraging private sector lending with a Federal guarantee. Total subsidy costs for the housing loan programs proposed for 1992 are estimated to be $427 million.

The 1992 budget again provides for subsidized guaranteed loans for lower income families. This proposal will encourage the private sector to become more involved in supplying housing for rural residents. In addition, unsubsidized guaranteed loans will be provided for moderate-income families who can afford to pay commercial interest rates but require a guarantee to obtain credit. The typical family being served by the single-family housing program has an annual income of $12,000. Those served by the rental housing program have an income of about $8,000.

Single family housing will be funded in 1992 at $1.25 billion, of which $559 million will be available for direct loans, $347 million for interest assisted guaranteed loans and $347 million for unsubsidized guaranteed loans. Interest assistance on guaranteed loans will average 4 percent and the effective interest rate to borrowers will not drop below 3 percent. This rate of assistance should be sufficient to reach a significant share of the low-income families eligible for Farmers Home loans.

Rental housing loans will be funded at $341 million. Sales of inventory property are estimated at $284 million, and under the new credit reform provisions, are requested as part of new loan authority.

In addition to the loan programs, $270 million is being requested for rental assistance and $190 million for housing vouchers. Vouchers will be targeted to those rural areas in which there is an adequate housing stock, and will assist families in renting single family dwellings as well as apartments.

An additional $20 million is requested for rural housing grants for domestic farm labor housing, very low-income housing repair and housing preservation.

ADMINISTRATIVE EXPENSES

As mentioned earlier, credit reform provisions have significantly revised the way Farmers Home administrative expenses will be funded in 1992. For administrative expenses, $230 million is requested in the Agricultural Credit Insurance Program Account and $425 million is requested in the Rural Housing Insurance Program Account. For the Salaries and Expenses Appropriation, $27 million is being requested to administer grant programs. The total administrative expenses request for 1992 is $682 million, a $29.4 million increase over 1991.

The budget calls for a net decrease in total ceiling staff years of 290, from 11,992 in 1991 to 11,702 in 1992, which includes 117 staff years for reimbursable administrative activities provided for the Rural Development Administration.

We believe that we can operate successfully at this reduced level of staffing based on management efficiencies, improved staff training, and increased use of automation. A key element in this operating strategy is the specialization, discussed earlier which will enable skilled staff to provide better delivery of services.

The request for administrative expenses includes an increase of $24 million for pay costs needed to restore the Agency's salary base which has been seriously eroded over the past several years as a result of having to absorb required increases for pay and related benefits.

An increase of $4.8 million to implement escrowing for single family housing loans is being requested. The Agency is mandated under legislation to offer escrowing to its single-family housing borrowers and needs to convert from simple interest accrual to amortized payments, which is the common method of interest accrual in the private sector. The requested increase will provide for the purchase of a new mortgage accounting system.

An increase of $3.7 million is requested for the first phase of evaluating and updating the Agency's accounting and management information system that supports the loan making and loan servicing programs. OMB and GAO have identified the 20-year-old accounting system as a "High Risk Area" needing correction. In addition, Farmers Home will need to meet the new Federal Credit Reform requirements which will drastically change the informational and functional demands on the accounting system.

An increase of $3.7 million is needed for automated data processing equipment maintenance. The requested increase is needed to cover the full-year maintenance costs of Agency hardware on which warranties have expired.

Last, but far from least, is a requested increase of $1.6 million for Agency training. This funding will advance the training plan developed in 1991 to provide a more standardized and consistent training program for the field staff in response to GAO and OIG recommendations for improved training in such areas as credit and financial analysis, loan classification, inventory management, agri-lending and comprehensive Assistant County Supervisor induction training. The field staff will also be trained in new ADP applications.

This concludes my formal statement. We have attached Farmers Home Administration's Annual Report which has charts and other information on program activity through fiscal year 1990. We will be happy to answer any questions. Thank you.

STATEMENT OF WALTER E. HILL

Good morning, Mr. Chairman and members of the Committee. I am pleased to present the 1992 budget for the Rural Development Administration (RDA), a new agency created by the Food, Agriculture, Conservation, and Trade Act of 1990 (the 1990 Farm Bill).

Mr. Chairman, the Administration lent strong support to the establishment of the RDA during the consideration of the Rural Development Title of the 1990 Farm Bill. Before I discuss the specifics of the RDA budget and its implementation, let me say that we believe that the establishment of the RDA provides the Department with a unique opportunity to improve its ability to assist rural America's efforts to become more competitive in the global economy. The establishment of the RDA will put a focus on the Department's rural economic development efforts by establishing one organization with the clear responsibility for developing and implementing the Department's rural economic development mission. In addition, we believe that having a RDA management whose sole interest is rural economic development issues will result in improvements in the delivery of the Department's rural development programs mandated to be transferred to the RDA. RDA will be able to concentrate solely on delivery of the Community and Business programs and to develop more expertise in the highly-specialized areas of rural development.

Planning for the establishment of the Rural Development Administration is being guided by two principles: improving the economic development assistance provided small communities and rural areas in conjunction with our loan and grant programs, and accomplishing the reorganization with minimal disruption in the delivery of both FmHA and Rural Development Administration programs. We are planning to have in place a functional Rural Development Administration after October 1, 1991.

While plans for the organizational structure of the RDA are not yet completed, it is our intent to provide for a transition period of several years. In the interim, RDA and FmHA will continue to share facilities and equipment.

The 1992 President's budget, in accordance with the 1990 Farm Bill, transfers FmHA Community and Business programs to the Rural Development Administration. Programs specifically referenced in the Farm Bill include the Water and Waste loan and grant programs, the Community Facilities loan program, the Business and Industry loan guarantee program, the Intermediary Relending Program, the Rural Development grants, and other programs administered by the Community and Business Programs Division of FmHA. The Department, through its existing Policy Coordinating Council, has established a process to study and make recommendations to the Secretary about which of the Department's other rural development programs to transfer to the RDA.

The budget includes $425 million in direct Water and Waste Disposal loans, an increase of $75 million over the amount available in 1990; $95 million for Business and Industry loan guarantees; $35 million for the Intermediary Relending Program, an increase of $16 million above the level for 1990; $96 million for the Community Facility loan program, of which $50 million is for guaranteed loans; $225 million for Water and Waste Disposal grants, an increase of $13 million over 1990 actual spending; and $20 million for Rural Development grants, an increase of $4 million over actual spending in 1990.

In addition, the budget proposes shifting from FmHA 925 staff-years and $73 million in salaries and expenses necessary to administer these programs.

The budget request for the Rural Development Administration includes $2.6 million to support the President's Rural Development Initiative of creating additional State Rural Economic Development Councils. These councils are composed of the directors of Federal agencies in each State. Their mission is to work with the states in developing economic development strategies and identifying how Federal resources can be better utilized in assisting the States to become more competitive

economically. As a pilot project, we have formed State Councils in eight states: Maine, South Carolina, Mississippi, Texas, Kansas, South Dakota, Oregon, and Washington. These councils will become operational this month.

This concludes my formal statement on the Rural Development Administration. I will be happy to try to answer any of your questions.

STATEMENT OF JAMES E. CASON

Mr. Chairman and Members of the Subcommittee: It is a pleasure for me to appear before this Subcommittee to discuss the 1992 Budget for the Federal Crop Insurance Corporation (FCIC). The agricultural community needs an effective and cost-efficient means to manage the financial hardship caused by catastrophic loss of production. The President's 1992 budget submission demonstrates a commitment to fill this need through a crop insurance program.

FCIC acknowledges the clear direction provided by Congress to improve the crop insurance program. Since the close of the last legislative session, the Department's representatives have been meeting with your staff and others to keep them advised on the progress we are making toward improving the crop insurance program and reducing costs. Program savings are being pursued in all cost centers under the Corporation's control.

A detailed breakdown of our budget request for fiscal year 1992 under current legislation follows.

FISCAL YEAR 1992 BUDGET REQUEST, CURRENT LEGISLATION

The total fiscal year 1992 budget request under current law for FCIC is $631.7 million. The budget request includes $322.9 million for Administrative and Operating Expenses, $221.5 million for Premium Subsidy, and $87.3 million for Reimbursement of the FCIC Fund. The total budget request represents a decrease of $31.6 million from the 1991 appropriated level.

This budget will support a premium level of $886 million and provide insurance coverage on an estimated 96.8 million acres. The loss ratio is projected to be 1.30, or about $1.1 billion in losses. Both our loss ratio and acres insured are expected to decline due to our 1991 rate adjustments. Total premium is projected to remain constant because higher premiums are expected to be offset by a reduction in the number of farmers participating at the higher rates.

Administrative and Operating Expenses

Our fiscal year 1992 request of $322.9 million for Administrative and Operating Expenses represents a decrease of $3.0 million from the fiscal year 1991 appropriated level of $325.9 million. Included in the Administrative and Operating Expense request is: $239.2 million for reinsurance expenses, $4.5 million for master marketer and loss adjustment expenses, and $79.2 million for FCIC salaries and expenses.

Premium Subsidy

Under current law, FCIC estimates it will spend $221.5 million for premium subsidy expenses, as authorized by the Federal Crop Insurance Act of 1980, as amended, for fiscal year 1992. This amount represents an average premium subsidy of 25 percent of the anticipated premium volume of $886.0 million.

Reimbursement to the FCIC Insurance Fund

As authorized by the Federal Crop Insurance Corporation Act of 1980, as amended, FCIC is requesting $87.3 million in fiscal year 1992 for prior year administrative and operating expenses paid from the Fund, but not previously reimbursed.

Reimbursement of these expenses will provide the additional funds, together with the current Fund balance, needed to ensure that there is a sufficient cash balance in the Fund to make indemnity payments on a timely basis and to pay other operating costs of the Fund.

USE OF CCC FUNDS

The 1992 budget, for both current and proposed law, includes $150 million in financial assistance from the Commodity Credit Corporation, which will ensure there is sufficient cash reserve in the Fund to make timely indemnity payments in the event of adverse agricultural conditions nationwide.

The need for CCC funds is expected to decline each year as the program moves toward actuarial soundness, and the loss ratio slowly improves. Under current law, by 1996 no CCC financial assistance is projected.

BUDGET INITIATIVES—PROPOSED LEGISLATION

The Administration is committed to improving the actuarial soundness of the crop insurance program and to reducing the administrative expenses of delivering crop insurance to agricultural producers. To further these commitments, it is important to ensure that program costs be placed in context and communicated in terms common to the private sector.

Currently, producers receive subsidy in the form of an administrative cost reimbursement that compensates private sector insurance companies for providing crop insurance sales, service and loss adjustment. The reimbursement rate is 34 percent under the 1991 Standard Reinsurance Agreement (or a lesser amount for Sales and Service Contractors).

In addition, producers receive a subsidy on premiums, as authorized by the Federal Crop Insurance Act of 1980, as amended, of 30 percent on a crop insurance policy up to the 65 percent coverage level. The average subsidy for all policies is 25 percent.

The 1992 proposed legislation budget reflects a reduction in the premium subsidy to 15 percent. It also proposes to include program delivery expenses in the premium rate base. FCIC will continue to fund delivery expenses, but the percent of premium subsidy provided will be computed to reflect the combination of the two subsidies currently paid by FCIC.

The following example may help to illustrate this proposal. Currently, a crop insurance policy of $100 would generate $75 in producer premium and requires an average government expenditure of $25 in premium subsidy. FCIC would also pay $34 in administrative cost reimbursements for this policy. Therefore, the total cost of the policy is $134, of which the producer pays $75, or 56 percent, and the government pays $59, or 44 percent.

Under the proposed legislation, the producer's cost would increase to $85, or 63 percent, of the total cost of the policy, and the government cost would decrease to $49, or 37 percent, of the total cost of the policy. This approach more accurately describes the full cost of providing crop insurance protection and demonstrates more clearly how generous Congress has been in supporting agricultural producers.

It is also our intention to encourage insurance companies to pursue administrative savings and pass those savings along to the farmer. Linking potential sales to efficient administration will create cost and service benefits for the insured farmer. These additional benefits will help ensure crop insurance remain a valuable means by which farmers and their bankers manage risk.

PROGRAM HIGHLIGHTS

Since the enactment of amended legislation in 1980, insurance has expanded from 1,676 counties to over 3,000 counties in 1990. County programs have increased almost 461 percent, from 4,629 in 1980 to 21,347 in 1990. Crop insurance is available in 50 states and in all agricultural counties on acreage previously covered by disaster payments.

In 1990, insurance sales reached the highest level in the history of the Corporation; nearly 41 percent of eligible acres were insured. Premium income increased from $158 million in 1980 to $840 million in 1990. For 1990, reinsured companies sold and serviced crop insurance policies generating $743 million in premium, while master marketers accounted for $97 million. Acres insured and insurance-in-force have also increased substantially. In 1980, acres insured were 26.6 million compared with more than 101 million for crop year 1990. Insurance-in-force has also increased for the same period, from $3 billion in 1980 to $12.8 billion in 1990. Indemnities paid to farmers for 1990 were $966 million, which resulted in a loss ratio of 1.15.

1991 PROGRAM INITIATIVES

As mentioned in my opening comments, we are making substantial efforts to improve the crop insurance program and reduce costs. FCIC plans to fully implement all provisions of the 1990 Farm Bill as soon as practically possible. Further, the FCIC and ASCS have committed to evaluate, by April 15, 1991, the program implications associated with enabling ASCS employees to take a significant role in crop insurance sales, service and loss adjustment as embodied in the report language accompanying the fiscal year 1991 Agriculture Appropriations Act.

Regardless of the April 15 announcement, ASCS will play more of a role in the crop insurance program. Beginning this year, we will provide ASCS county offices information on the crop insurance program and lists of agents in the area who sell crop insurance. We are evaluating the best means to be able to offer farmers the

option of using their ASCS yields for crop insurance purposes. In addition, FCIC is examining the various reporting dates and requirements associated with the two programs to see if we can simplify program compliance requirements.

I would like to briefly highlight three additional initiatives which illustrate our commitment to meaningful change.

Standard Reinsurance Agreement

In the Food, Agriculture, Conservation, and Trade Act of 1990, Congress directed FCIC to offer a new Standard Reinsurance Agreement to the private sector which required greater risk retention. A new agreement, containing provisions that private sector companies assume a greater potential for gain or loss, was published for comment in the Federal Register. The new agreement will: increase the share of risk retained by reinsured companies along with a transition plan for yearly increases in retained risk; delineate procedures and amounts for administrative expense reimbursements; provide for a subsidy payment on producer premiums; provide reinsurance coverage for insurance policies sold and retained by reinsured companies; incorporate such other terms and conditions needed to ensure accountability for performance under the agreement; and state a new policy that requires FCIC to arrange for loss adjustment on policies where substantial risk is not retained by the reinsured company.

Premium Rate Adjustments

The FCIC announced premium rate adjustments for 1991 are designed to improve actuarial soundness. Congress subsequently included language in the Food, Agriculture, Conservation, and Trade Act of 1990 requiring FCIC to increase rates where necessary to achieve actuarial soundness.

The methodology and criteria used in developing rates for the 1991 crop year evolved from previous rate adjustment experience, recommendations from the Milliman and Robinson, Inc., consulting actuaries, and discussions with the Actuarial Improvement Coordinating Committee, a working group external to the FCIC but composed of various "technical" people in the crop insurance industry.

Changes in three variables in the program have affected the farmer's rate for crop year 1991. First, FCIC switched from a county-based rating system to using the National Agricultural Statistics Service (NASS) Crop Reporting Districts as the rating base. Second, yield spans (R-Spans) were redefined which had rating implications. (R-Spans reflect production tiers within a rating district). Third, rates were determined for crop year 1991 which included the appropriate premium rate changes needed to move toward actuarial soundness.

Implementing this new methodology will reduce rating discrepancies between counties. Further, moving to a larger rating base will ensure a more statistically accurate rating system. Because three variables were changed simultaneously, a number of individual producers have received premium adjustments exceeding the intended targets. This situation has been addressed by permitting increases to be capped at 20 percent. The FCIC is reviewing its methodology to identify a means to mitigate this problem in future rating determinations.

Non-Standard Classification System (NCS)

The FCIC initiated a new process that has already contributed to improving the actuarial integrity of the program. We developed the Non-Standard Classification System (NCS) to identify individuals with frequent or unusual loss patterns and to adjust their rates and coverages to reflect the higher risk they represent.

From 1981–1989, six percent of all insured producers collected almost 28 percent of all indemnities. The FCIC's experience is unusual within the insurance industry in that the same individuals continue to receive repeated indemnity payments. Once the individuals are identified, their premium rates and coverages are adjusted. By targeting these individuals for remedial action, we hope to avoid across-the-board rate increases to accommodate the loss histories of a small percentage of farmers.

The first crop reviewed was soybeans. Research on soybeans revealed that 1.4 percent of insureds collected 23.4 percent of indemnities from 1983–1989. A total of 3,000 contracts were selected for further action from more than 300,000 contracts for the 1991 crop year. Each insured was provided an opportunity to seek reconsideration of the NCS determination and a subsequent opportunity to appeal the reconsideration decision. The appeal period has expired with a total of 34 petitions having been filed. Adjusted rates and coverages will be implemented for all individuals identified by NCS criteria for 1991 soybeans except for those cases pending appeal.

For the 1992 crop year, the NCS is widening its scope to review barley, corn, cotton, grain sorghum, peanuts and wheat. Notifications for fall planted wheat and barley are being sent to insureds selected for review. For example, approximately

2.2 percent of wheat contracts have been selected for review (4,554 out of 206,000 total contracts).

CONCLUSION

Mr. Chairman and Members of the Subcommittee, these examples illustrate our commitment to addressing the major challenges confronting the Corporation. This concludes my statement. We will be glad to answer any questions.

STATEMENT OF GARY C. BYRNE

Mr. Chairman and members of the Committee, it is a pleasure for me to be here and join the Under Secretary in discussing the Rural Electrification Administration's (REA) fiscal year 1992 budget and program proposals. I have a short statement to present and then I would be happy to answer any questions.

Traditional mission

When Congress established REA, its mission was to assure that funds would be available to assist rural electric organizations in obtaining the financing required to provide electric service to rural America. This mission was later expanded to provide loan funds for telephone service and technical assistance and expertise to borrowers.

History of success

Over the past 55 years, the Rural Electrification Administration, through our borrowers, has helped improve the lives of rural Americans. Today, virtually all farms and rural areas now have reliable electric and telephone service. According to our latest statistics, 98.8 percent of U.S. farms have electricity and 96 percent have telephones. Several electric borrowers, whose service territory was once very rural, are now serving suburban areas in competition with urban utilities. Telephone systems financed through REA are now an integral part of the Nation's communication system.

In addition to the changing nature of borrowers' service areas, REA borrowers have also developed strong financial positions. In the telephone program, for example, a significant portion of REA and RTB financing has been provided to subsidiaries of large telephone holding companies. These companies already have excellent avenues to the private credit market.

One large holding company, whose subsidiaries have a total of $271 million in REA/RTB financing, received $100 million of this financing in the 1980's. Subsidiaries of another holding company also received $100 million in financing during the 1980's. This company had net profits of $277 million in 1989 with a return on equity of 16.8 percent. There are many other examples of very financially strong companies still receiving highly subsidized financing from the REA and RTB.

Presently, there is $145 million in pending telephone applications from subsidiaries of holding companies. This amount represents 30 percent of the total telephone funds available in fiscal year 1991. Subsidies provided by the REA and RTB are benefiting the stockholders of these telephone holding companies. These benefits which were provided by Congress were intended for rural utility customers.

REA electric distribution borrowers continue to improve financially. These systems have total assets in excess of $23 billion. Nationwide, total equity for these borrowers is $8.6 billion or almost 40 percent in total assets. In fiscal years 1989 and 1990, more than half of the total loan funds approved were made to 76 borrowers which had more than 20,000 consumers. Of these borrowers, 18 received REA financing in the amount of $316 million. Many of these systems are now serving areas which have lost their original rural characteristics. Most of these systems no longer need the subsidized financing which REA is providing. Recently, an official of the National Rural Electric Cooperative Association stated that around 50 electric borrowers are looking at serving 250,000 consumers each by the year 2000. Financing requirements of these systems are so large that alternative methods and sources of financing, other than those provided by the Government, are being sought.

Congressional policy goal

In a 1973 statement of congressional policy, Congress declared that: * * * Rural electric and telephone systems should be encouraged and assisted to develop their resources and ability to achieve the financial strength needed to enable them to satisfy their credit needs from their own financial organizations and other sources at reasonable rates and terms consistent with the loan applicant's ability to pay and achievement of the act's objective.

The administration supports this congressionally stated policy goal and realizes that, through REA's assistance, the majority of electric and telephone borrowers have been able to move from complete reliance on the Federal Government. This is evidenced by the borrowers' ability to meet a portion of their capital needs through the National Rural Utilities Cooperative Finance Cooperative and the National Bank for Cooperatives (Cobank). Today, the availability of capital is more important to REA borrowers than the cost of capital.

Movement from subsidized Federal loans

In the Omnibus Budget Reconciliation Act of 1990 (OBRA), Congress also recognized that REA borrowers have developed the credentials required to secure their financing needs from private sources. In OBRA, Congress established a small risk sharing guarantee program for REA borrowers. The 1992 budget proposal further recognizes this improving financial strength of REA borrowers by continuing the movement from subsidized direct Federal loans to private financing with a Government guarantee.

Credit reform

The FY 1992 budget request reflects the new credit reform procedures authorized in OBRA. Consistent with these procedures, REA's budget proposal includes estimates for subsidies required to support loan levels for the various programs of the agency.

FISCAL YEAR 1992 BUDGET—CURRENT LAW

Electric program

The FY 1992 current law budget contains loan levels for the RETRF Electric Program as established by the Omnibus Budget Reconciliation Act of 1990. The budget includes $505 million for insured loans and $169 million for 90-percent guarantees of private-sector distribution loans. Under Federal credit reform, the amount of loan subsidies is $95.3 million.

Telephone program

For the RETRF Telephone Program, the current law budget reflects loan levels as established by OBRA. This includes $194 million for insured loans and $65 million for 90-percent guarantees of private-sector loans. Also, $125 million in Rural Telephone Bank direct loans is provided in the budget. Under Federal credit reform, the amount of loan subsidies for the RETRF Telephone Program is $32.7 million and for RTB direct loans, the amount of loan subsidies is $2.6 million.

No appropriation is requested for purchase of Rural Telephone Bank stock.

Salaries and expenses

REA is requesting a total appropriation of $38,051,000 for salaries and expenses, $29,419,160 for administration of the RETRF programs and $8,631,840 for the RTB programs. An increase of $683,000 is being requested for personal computers and other ADP-related expense. The Agency anticipates purchasing $927,000 of software and personal computers in FY 1992. However, with the exception of older computer replacement and upgrades of software, hardware, or specialized equipment, this purchase will complete REA's office automation plan.

The budget request provides for 520 staff years, the level necessary to administer the loan programs and to return to the traditional mission of REA as proposed in the budget.

Rural economic development subaccount

No direct appropriation is requested for the rural economic development subaccount. However, loan authorization of $4,800,000 is requested for the earnings generated from cushion of credit payments by REA borrowers and loan repayments. A subsidy appropriation of $1.5 million is also requested. The subsidy appropriation and earnings would provide adequate funds to continue this program.

Reimbursement to the RETRF

No appropriation is requested to reimburse the RETRF for interest subsidies and losses. Credit reform provides indefinite budget authority for losses and expenses related to RETRF loan obligations.

Electric program

For the electric program, the budget request contains $1.1 billion for partial guarantees of private-sector loans. This includes $600 million for distribution loans and $500 million for power supply loans. For distribution borrowers, an REA guarantee of 70 percent would apply. Power supply borrowers would receive a 90-percent REA guarantee. Under Federal credit reform, there would be no subsidy requirement for the guarantee program.

The proposed budget also recognizes that some borrowers may have a critical need for direct subsidized credit. For these borrowers, the budget includes $200 million for direct electric distribution loans. The amount of subsidy required for direct electric loans would be $37.2 million.

Telephone program

For the telephone program, the proposed budget includes $125 million in Rural Telephone Bank direct loans and $275 million in partially guaranteed private-sector loans. Guaranteed loan commitments will have a 70-percent RTB guarantee. The RTB programs would not require subsidy appropriations.

Legislation has been requested to implement this budget request and to continue the Agency's traditional mission as a telephone and electric credit provider.

The proposal requested the following changes to the RE act:

1. Provide 90-percent guarantees of power supply loans and 70-percent guarantees of electric distribution loans made by the private sector.
2. Allow the RTB to provide partial guarantees of loans made by the private sector.
3. Charge a loan guarantee origination fee of 1 percent on guaranteed loan advances. The fee would increase by one-half percent each year until it reaches 3 percent.
4. Increase interest rates on direct RTB loans by one-half percent per year until they reach Treasury rates of comparable maturity.

SUMMARY

The 1992 budget proposal allows REA to return to the mission of extending supervised credit for the purpose of providing and expanding rural electric and telephone service to rural areas. It supports the policy goal of encouraging borrowers with the financial credentials to enter private credit markets to give back to the Nation, in terms of lower federally subsidized programs and lower Federal deficits, some of the benefits that have allowed them to grow and prosper. The budget request also includes direct Federal loans for those borrowers who would not qualify for private funding. Our goal has been and will continue to be working with the borrowers until they are financially able to enter private credit markets. This goal and the essential credit needs of all REA borrowers would be served by this proposal.

Mr. Chairman and members of the Committee, we ask your support of this request.

This concludes my statement. I will be happy to respond to your questions.

BIOGRAPHICAL SKETCHES

WALTER E. HILL

Walter E. Hill was appointed Assistant Under Secretary of Agriculture for Small Community and Rural Development by Secretary of Agriculture Clayton Yeutter on February 14, 1990. In this post, working with Under Secretary Roland Vautour, he is responsible for implementation of the Presidential Initiative on Rural Economic Development for the 90's, and for coordination of the Department of Agriculture's rural economic development efforts.

Prior to joining the Department as a Special Assistant to Under Secretary Vautour in July 1989, Hill had been House Minority Leader in the Oklahoma House of Representatives, where he served five terms as a State Representative.

Hill earned a B.S. in Agronomy from Panhandle State University in 1964, an M.S. in Soil Science in 1966, and a Ph.D. in Soil Chemistry and Plant Nutrition in 1973, both from Oklahoma State University. He served in the U.S. Army from 1967 to 1971, attaining the rank of First Lieutenant.

A native of Turpin, Oklahoma, Hill has managed farming operations in Beaver and Texas counties in Oklahoma. He has been active in various professional, political and civic organizations. Assistant Under Secretary Hill and his wife Rita have

a son and a daughter. The family currently resides in Alexandria, Virginia, where both children attend high school.

JAMES E. CASON

James E. Cason is the Manager of the Federal Crop Insurance Corporation, United States Department of Agriculture, Washington, D.C. As the Manager, Mr. Cason serves as Chief Executive Officer of the Corporation with full responsibility for the effectiveness of the Federal Crop Insurance Program and the over-all policy formulation and planning of the Corporation's programs.

Mr. Cason is an native of Athens, Texas. He is a graduate of Pacific University, Forest Grove, Oregon, with a Bachelor of Arts Degree in Business Administration in 1976.

In January 1976, he became the Project Manager for the Western Environmental Trade Association in Portland, Oregon. In this position he managed land and natural resource issues.

During 1978–79 as the Vice President, Cascade Overview Development Corporation, a Portland-based development enterprise, Mr. Cason served as the on-site manager for a development project in Iran.

In 1979, Mr. Cason became a Partner, Office Manager, and Salesperson for a real estate firm in Portland, Oregon. It was during this time that he was the Campaign Manager for Lynn Engdahl, the candidate for the U.S. Congressional District in Portland.

From 1981–82, Mr. Cason was the Operations Assistant Manager for Fred Meyer, Incorporated, a merchandise retail outlet company in Portland.

Mr. Cason moved to Washington, D.C. in 1982 to become the Special Assistant to the Director of the Bureau of Land Management, U.S. Department of the Interior. He served in this position until 1985, when he became the Principal Deputy Assistant Secretary for Land and Minerals Management, subsequently becoming the Acting Assistant Secretary for Land and Minerals Management.

In May 1990, Mr. Cason was appointed Deputy Manager of Federal Crop Insurance Corporation. He served in this capacity until he received his current appointment in February 1991.

Mr. Cason and his wife Susan reside in Washington, D.C.

STATEMENT OF SENATOR KERREY

Senator BURDICK. I would like to call on the able Senator from Nebraska for any questions he would like to ask.

Senator KERREY. Thank you, Mr. Chairman. I know that time is limited since we have to go listen to the address by the President of Nicaragua. I want to make certain that in the limited amount of time I have that I am not shy about lavishing praise on Mr. Cason's work at the FCIC. I think he is doing an outstanding job, though we have some remaining issues and I have one or two questions in particular having to do with rate increases.

I know that you have met with a number of people who have objected to the size of the rate increases. I am very conscious of the need to have some increases and to get the program on a more actuarially sound basis. The administration of the program in the past has been a serious problem, but it is certainly less of a problem as a consequence of your work. You are clearly committed to making the program work.

It is almost impossible to satisfy all of the demands regarding crop insurance, but I think you have done an awfully good job in trying to work with the reinsurance industry and also with the locals who are trying to get this program in a position where people can be comfortable that it is not a constant drain on the taxpayer.

Mr. CASON. Thank you, Senator.

STANDARD REINSURANCE AGREEMENT

Senator KERREY. The proposed new standard reinsurance agreement is nonetheless one apparent problem that has been identified, and I understand it would, for example, reduce the company's expense reimbursement rate from 34 to 29 percent. That apparently is a rather radical change.

Can you give me some information about the changes that you are proposing?

Mr. CASON. Yes, Senator; I would be happy to discuss the new reinsurance agreement. The standard reinsurance agreement is the document that defines the working relationship between the FCIC and the private sector companies that deliver crop insurance. We were directed in the 1990 farm bill to offer a new standard reinsurance agreement that provided for a greater retention of risk by the companies.

We have gone through a process of drafting a new document. It does have a number of changes in it. We put it out as a proposed document for comment to solicit reactions from the industry. They have identified a number of problems with it, and we are going through a process right now to analyze those comments.

We are looking at every one of the comments, breaking them apart by issue, writing decision papers on each issue, and identifying the range of options presented in the comments. This process will expedite decisionmaking and will contribute to making a document that is reasonable and fair for the taxpayers and the farmers and the companies and for FCIC. That is our ultimate objective in the process.

ROLE OF ASCS IN CROP INSURANCE

Senator KERREY. Yesterday was the day by which you were going to have completed an evaluation about how much of an additional role to give ASCS in delivering the program. Have you completed that evaluation?

Mr. CASON. No, Senator Kerrey, we have not completed that evaluation yet. As I am sure you are aware, it is a difficult issue. We have been directed to evaluate the return of sales and loss adjustment to ASCS, and at the same time manage under our authorizing language that says we should maximize the participation of private sector crop insurance companies.

As you might expect, it is difficult to do both of those at the same time. We have tried to go through a process of evaluating the full range of options. We have not yet completed that process, but we anticipate completion in the near future. While we are here, I would be willing to accept any advice you might have on how we resolve that, too.

Senator KERREY. Well, as we all know, that probably requires us to do a little bit of work on the House side to get a favorable result. My position has been that the ASCS has plenty of work to do already without having the additional responsibility of delivering crop insurance. That is at odds with some, and in particular one Member, on the House side, whose opinion I respect a great deal.

Nonetheless, I am anxious to see the details of the report itself. I am a bit more concerned that I not get into a position that is

cross-wise with reality on the issue of raising the rates themselves. My belief is that the crop insurance is the preferred way to assist farmers in reducing risk because it leaves the decision about risk management in the farmer's hand rather than having a Federal disaster program whose details are determined by Congress on an ad hoc basis.

Crop insurance allows us to leave the decision in the producer's hands. Nonetheless, I think there is a need to get the program more actuarially sound, which means that I have to allow you to price this thing to market and price this thing to reality as well.

CAP ON CROP INSURANCE RATE INCREASES

Some people have recommended that there be a cap on rate increases at 20 percent. What is your thinking on that? I personally hold no strong opinion on a cap other than it might in fact put an artificial constraint on what you could do and might be the sort of thing that could inhibit your effort to get the program on an actuarially sound basis.

Do you have any thoughts on the proposed cap?

Mr. CASON. Senator, there are two parts that relate to the cap. In the 1990 farm bill, we received instructions from the Congress requiring a 20-percent cap on programmatic rate increases. When dealing with a certain crop under the same farming practice and same conditions, we may not increase rates by more than 20 percent.

That still leaves the opportunity for individuals to have rate increases that are more than 20 percent because premium rates increase whenever an individual's average yield declines.

We have been asked for a 20-percent cap on an individual basis for this year. We have granted an individual rate increase cap of 20 percent under defined conditions. The conditions are that rates for the same crop, same yield, and same farming practice must be compared. Individual agents are now in the process of qualifying farmers for the 20-percent cap.

Senator KERREY. Well, I hope you will at least consider me to be an ally in this effort. If there is any specific legislative changes that need to be made to give you the opportunity to show that this program can work better, I hope you will give us an opportunity to work with you to get that done.

As I said in my opening remarks, I think you are making an awfully good effort, and the word that we get at the local level, even where there is some objection to the details, the word that we are getting is that you are making every effort to make certain the program works.

TELECOMMUNICATIONS FOR DISTANCE LEARNING

I have one additional question, Mr. Chairman, that relates to rural development. Mr. Vautour, I would be very interested in a reaction from you, and maybe Mr. Byrne at REA as well. In Nebraska there has been a very exciting effort to try to use telecommunications in distance learning in primary and secondary education.

I say it is very exciting because it is something that allows the schools, particularly in rural areas, to accomplish a number of poli-

cy objectives that all of us are trying to achieve. Basically, we are trying to get difficult subjects taught, like languages, physics, chemistry, often under conditions that make it extremely difficult to get the resources needed to do the job well.

Is the Department working under the category of rural development on any distance learning efforts either with primary and secondary education, which is my principal focus? To my mind at least it is an extremely important part of rural development, and I would be very interested to know if the Department is working on any efforts in that area.

Mr. VAUTOUR. I do not know exactly whether the Department is working on it specifically. You are right, that would be an REA type function, and I would defer to Mr. Byrne to answer that particular portion of your question.

As you know, Senator, I spent some time in Nebraska. There are some exciting things happening in Nebraska. The leadership out there has brought forth some programs that are working quite well.

With regard to the role that education and/or outreach of education will play, the President's Council on Rural Development, which is comprised of some 20 people and the vice-chair of which is the ex-Governor of Nebraska, will be grappling with that problem. But as far as the technical aspects of that, Mr. Byrne will address specifically your question.

Mr. BYRNE. In the current REA program we are able to do some things in the distance learning area. We have recently provided financing for a telephone company in Oklahoma, for example, to use fiberoptics to communicate with various schools. So, we are moving in that direction but we have some limitations.

INTERAGENCY EFFORT IN SCIENCE EDUCATION

Senator KERREY. Well, I know that the administration has underway an effort to get the different agencies to cooperate in the application of technology and science, and I believe that USDA participates with NSF and with the Department of Energy in an interagency effort to improve science education. Is that correct? Is my understanding of that correct?

I do not remember at the moment the new acronym that has been developed for that, but it seems to me there is an interagency effort in science education. Is USDA participating in that?

Mr. BYRNE. I cannot speak for the USDA, Senator, but REA is not at this time.

Senator KERREY. Well, it would be, I think, worth our while to explore the possibility of having, under the category of rural development, USDA participating in that effort. I believe it is extremely important to try to get gifted science, language and other specialty subjects into rural areas. It is extremely difficult to get it done, but I think we should make a determined effort to try.

It is a very high cost effort for the relatively small number of people in some of the smaller schools. And it seems to me—and I would be prepared to argue it fairly strenuously—that successful efforts in primary and secondary education, particularly in science and math and in languages, are very important building blocks for rural economic development.

Mr. VAUTOUR. Senator, I quite agree, and I think this points out the value of the Rural Development Administration. I think it is a vehicle that can accomplish that, working with the Economic Policy Council, which spreads across all of government; I think between those two segments we can get something going.

I will certainly ask Mr. Hill, who is the Assistant Under Secretary for Rural Development to take that and run with it.

Senator KERREY. Thank you.

GOALS FOR THE CROP INSURANCE PROGRAM

Senator BURDICK. Mr. Cason, since you are a relatively new manager of FCIC, would you share with us what the administration's plans for the crop insurance program are in the short run and what are the long-run goals?

Mr. CASON. Mr. Chairman, our plans are to do everything that we can to improve the crop insurance program, that is, to implement the provisions of the 1990 farm bill; to review the critical elements of the crop insurance program to ensure that they work; to assure that we have the data and tools necessary to make sound decisions; and to take actions to ensure that all the members of our delivery systems are focused upon the need to provide top quality service to farmers at a reasonable cost.

Senator BURDICK. FCIC in the past has changed program crop insurance projections quite often. What changes are under discussion for 1992?

Mr. CASON. Mr. Chairman, at this point we anticipate a number of changes. We are aggressively implementing the provisions of the 1990 farm bill. There were about a dozen or so new requirements, such as, offering ASCS yields to those people who would like them, reworking our rates where necessary, offering a new standard reinsurance agreement, and ensuring uniform loss adjustment procedures.

We are going through the process to implement all of these requirements. We have also initiated a number of activities in 1992 to ensure that our data and methodologies for making decisions are sound.

NEW REINSURANCE AGREEMENT

Senator BURDICK. You have recently proposed a new reinsurance agreement for private companies. I understand that you have received numerous written comments on the proposal, including some stating the proposal is illegal and that it violates the Crop Insurance Act. Tell me the current status of that proposal, what further adjustments you expect to make, and the timetable for implementing it.

Mr. CASON. Mr. Chairman, the comment period on the draft standard reinsurance agreement has closed and we are currently analyzing the comments. We did have numerous comments. We anticipate having the comments analyzed and drawing conclusions on what options we ought to pursue within the next 2 weeks.

We hope to get the revised document out somewhere between May 1 and May 15.

Senator BURDICK. Is it your goal that any farmer who wants crop insurance should be able to purchase it at affordable rates? If so, what mechanism do you propose if the private companies are so unhappy with the reinsurance agreement that they choose not to participate?

Mr. CASON. Mr. Chairman, it is our hope that the standard reinsurance agreement we offer will be one that is fair to the farmer, fair to the taxpayer, fair to the companies and fair to FCIC. We hope that the companies will not find it unfair to them and choose not to write.

If they do, the master marketers are available to write additional business. And if that entity is insufficient, we will do everything that we can to ensure that a system is available to ensure every farmer has an opportunity to purchase crop insurance.

EMERGENCY DISASTER LOANS

Senator BURDICK. Mr. Ausman, in view of the lack of disaster payments at this time, there is increased interest in the emergency disaster loan program. However, many farmers complain that it is too difficult to qualify for the program—too many restrictions. Therefore, we included report language in the supplemental appropriations bill asking you to review your policies to make this program more accessible to the farmers.

In view of the large amount of money available for these loans, you should be working to help farmers through this program. Of the $600 million available, how much have you spent and what are you doing to comply with our report language?

Mr. AUSMAN. Mr. Chairman, as of today we have made obligations in the emergency loan program of just slightly over $40 million.

As to the outreach and serving the need, the administration, in concert with Congress, made major changes in the guidelines for emergency programs back in 1985, not unrelated to the difficulties we had experienced in servicing many of those loans and the high delinquency rate.

The requirements for the emergency loan program today are consistent with the requirements for Farmers Home farm program loans. The basic guideline is that you have to be a family farmer, that you have to pass the need for credit, that you cannot get credit in the commercial field, and that you show repayment ability. But that is only dollar-for-dollar repayment ability.

So it is consistent with our other programs. The benefit to the program, of course, is a slightly reduced interest rate of one-half of 1 percent below our limited resource rate. But clearly we are addressing those concerns, in our opinion, wherever they arise, and the people who qualify for the program within those constraints, which are consistent with the guidelines for Farmers Home, are being supplied with credit.

RURAL DEVELOPMENT ADMINISTRATION

Senator BURDICK. Secretary Vautour, your budget proposes to establish a Rural Development Administration, the RDA, under which will be the rural development insurance fund programs, the

rural development loan fund, rural development grants, rural water and waste disposal grants, emergency community water assistance grants, solid waste management grants, and rural community fire protection grants.

You are not planning to implement the RDA in 1991, are you?

Mr. VAUTOUR. We have not done any of that in fiscal year 1991. We are in the planning process, and we hope that by October 1 of this year, which would take us into the 1992 fiscal year, that we will be in a position to do those things that Congress mandated that we do, most of which are what you just outlined, Mr. Chairman.

Senator BURDICK. If funding were provided for RDA, will you include any other programs in addition to those mentioned above in this agency?

Mr. VAUTOUR. We have a system under way now to analyze the other programs in other agencies that have a mission in rural development and the applicability of whether those programs should be included in the Rural Development Administration. That process is not complete, Mr. Chairman, and I expect that it will be, however, before October 1.

Senator BURDICK. What exactly is your plan for a Rural Development Administration? For example, do you plan to have county RDA personnel? Where will they be located following the transition period?

Mr. VAUTOUR. County personnel? No; we do not, sir. Under current plans, the programs that would be moved are programs that are handled either at the district level or at the State level. That is why I said in my opening statement that I did not feel that any of this will have an impact on the county office.

Senator BURDICK. If you are not proposing any new programs for RDA, why do we need a new RDA? Is the Farmers Home Administration not capable of carrying on current programs?

Mr. VAUTOUR. The Farmers Home Administration is perfectly capable of carrying on the programs, and I think they have done an outstanding job over the years. But the concept of the Rural Development Administration was to coordinate these programs as well as other programs so that we could better deliver those services that a community needs in order to get some sort of rural development activity going in its area.

REA MEANS TEST

Senator BURDICK. I think this next question is for Mr. Byrne. You have proposed a means test for borrowers to receive loans which, according to many borrowers, just is not fair. I am referring to REA. I know that you have received numerous comments on this proposal. The criteria you are proposing do not make fair comparisons in terms of per capita income, kilowatt hour usage, rate disparities, and others.

What is the nature of the comments you are receiving, and what is your timetable for implementing this means test?

Mr. BYRNE. Mr. Chairman, the comment period closed a week ago Monday, so we are now in the process of reviewing the comments we have received. It would be premature for me to comment

on the nature of those comments. I do not really have an overview of the comments yet.

But we certainly will have an overview within a couple of weeks. We would anticipate that the process of reviewing those comments will take at least a few months. I would anticipate that it would be at least June before something would be ready to be reviewed and published as a final regulation.

In addition, if I could comment on the rationale behind the means test, when OBRA last year cut the REA insured loan levels by 25 percent, it mandated that REA manage those reductions in a way to lessen the adverse effect. That is the purpose of this methodology—to provide a framework within which those 25 percent reductions can be handled in the insured program.

I think one important thing under the proposed means test, that REA has been receiving comments on, is that 60 percent of the REA borrowers would actually be eligible for REA loans levels higher than a 25-percent reduction in all their insured lending and 30 percent of all the REA borrowers would see no reduction at all in their lending levels.

FARM OPERATING LOANS

Senator BURDICK. Due to the Budget Reconciliation Act last year, farm operating loans are significantly reduced. A portion of funds has been set aside for subsidized loans, but you have only recently gotten that program up and running.

What is the status of credit for farmers? Is there pent-up demand for which funds are not available?

Mr. AUSMAN. Mr. Chairman, we monitor that daily, obviously, and of course we are well into this year's lending program. This year we have $493 million available on the direct program, and, based on our best observations, we believe this will be adequate. Our obligations for direct loans as of today are about 62.5 percent of what they were last year on the same date.

We were as concerned as you are, I am sure, that we did not get the interest assistance out there any earlier. It was available as of February 28, and we had done some training prior to that. It is now being well accepted and widely accepted in the credit community.

The good thing about it is that it will make the guaranteed program work better. We already have an extensive guaranteed program, as you know. It was not that guarantees were new, we just had to add interest assistance to it. The guaranteed program, as of today, has obligations of about 103 percent of where it was a year ago. So the guaranteed program continues to expand. We expect that expansion to accelerate as people become more familiar with the interest assistance.

Viewing the credit situation today, we think we will be serving all needs in a timely fashion.

Senator BURDICK. Have the States been given their fourth quarter allocation? If not, when will they?

Mr. AUSMAN. We have on a couple of occasions released fourth quarter allocations where it was necessary, that is, if they had used up their third quarter allocation. We will monitor the situation and do what is needed. The full final allocation is scheduled for June

1. But we monitor individual States and accommodate them as we go.

Senator BURDICK. Are you maintaining a pool of funds in the National Office again this year? If so, in what amount and when will it be allocated to the States?

Mr. AUSMAN. There is a very limited pool in the National Office this year, and again, that will be allocated based on need.

Senator BURDICK. So the "when" is "when needed," is that it?

Mr. AUSMAN. Right, on request.

Senator BURDICK. How much is in the pool?

Mr. AUSMAN. $24.5 million.

GUARANTEED HOUSING LOANS

Senator BURDICK. Thank you.

I understand that you have not fully implemented the guaranteed housing loan authority provided for this year for the section 502 program. If this is the case, and there is little or no experience yet on how the program works, what is the rationale for increasing the loan guarantees by almost $600 million and cutting direct 502 loans by over $700 million?

Mr. AUSMAN. The regulations have been published and will be going final in May for a guaranteed loan program. It will be operating this year in 20 States. We did that because the $100 million authorized for this purpose for 1991 would not be sufficient to adequately test the program across the country. However, those 20 States are located all over the United States and will give us a good background.

We believe we have done sufficient work with all of the potential lenders out there that will participate in the guaranteed housing loan program. In relation to the response we have received from them we will be able to take the program that we are advocating for next year, which is $694 million in guaranteed loans, one-half of which will be with interest assistance, and make that program work.

I can say this. We have had inquiries from many of the States who are not included in the 20 test States requesting to be a part of it. There is tremendous interest in the program out there. It is not that revolutionary because guaranteed loans for housing are common in the industry. Our program is very similar to what the industry is familiar with, and we believe that because of the experience we will get this year and the training we will have available, we can meet our projected performance for fiscal year 1992.

Senator BURDICK. What has been the obligation rate for FmHA farm guaranteed loans since 1985? Why do you expect to do better with housing guarantees?

Mr. AUSMAN. Well, in farm loan guarantees, 1985 is when we made the first step. I can say we have had about 50 percent of our farm operating loans provided by guarantees now for going on 5 years. Last year, it was 55 percent, and this year it will be even higher.

How can we get off to such a fast start in the guaranteed housing program? I think the guaranteed farm loan program was an entirely new program to the credit community. After really beginning in 1982, it expanded rapidly after the 1985 Food Security Act. Hous-

ing guaranteed loans are already well-known in the industry. It is what FHA and VA and other guaranteed lenders have been providing. Farmers Home is really one of the few providers of direct credit for housing. All of the rest of the housing in the urban areas and even in many of our smaller cities has been through guaranteed lending by VA and FHA.

This will move out into rural America with the credit community well familiar with the program and ready to operate.

DEFERRED MORTGAGE DEMONSTRATION

Senator BURDICK. The 1991 supplemental appropriations act provided that up to $35 million of section 502 funds can be used in the recently authorized deferred mortgage demonstration program.

Do you plan to implement the program so it can begin in 1991?

Mr. AUSMAN. Mr. Chairman, on the deferred mortgage demonstration program, we have to develop regulations to implement that pilot program. We are moving ahead and responding to that directive.

Senator BURDICK. You have not answered my question. Will it happen in 1991?

Mr. AUSMAN. Pardon?

Senator BURDICK. Will you have it available in 1991?

Mr. AUSMAN. We would hope to have it up and running in 1991. Again, it depends on if we can get the regulations published and operating in that period of time.

Senator BURDICK. This question is for Mr. Byrne. I am very disappointed in your budget for REA. Year after year the same budget is proposed to cut the program. I have received your recent publication, "Return to Mission." It strikes me as pure propaganda to support your attempts to eliminate REA. First of all, I would like to have a few specifics about the reports.

How much did it cost to produce this document? How many copies did you make? And to whom was it distributed?

Mr. BYRNE. Mr. Chairman, we are not sure exactly how much it cost. Two thousand copies were published; they were available to employees of REA, to Members of Congress, and some interested parties.

Senator BURDICK. Can you provide for the record the cost of the documents?

Mr. BYRNE. Yes; the document cost $933.

Senator BURDICK. Mr. Byrne, you have unfilled vacancies in your agency. You have a backlog of electric and telephone loan applications that remain unfunded in spite of available resources. You refuse to provide the economic development and technical assistance required by law. Yet you find time and resources to oppose Congress on the REA programs.

How many people worked on this document and what was the cost of their time spent producing it?

Mr. BYRNE. We will be glad to get that information to you. The document was written by basically one individual, with some editorial help from a second individual. Much of it was written at nights and on weekends. It was not a major staff effort, Mr. Chairman.

Senator BURDICK. So you will provide some more information on that question?

Mr. BYRNE. We would be pleased to.

[The information follows:]

Development of Return to the Mission has not interfered with the processing of loan applications. Both programs anticipate using all of their insured loan authority. We are proceeding to establish and fill the Assistant Administrator for Economic Development position authorized by the Food, Agriculture, Conservation and Trade Act of 1990. The existing Rural Development Staff is being expanded in order to begin providing additional technical assistance to REA borrowers.

It would be difficult to determine the personnel costs in the development of Return to the Mission. The bulk of this activity was performed by REA's policy staff. Total staff time is estimated at 160 hours. Senior Program and other Agency officials spent a minimal amount of time to review drafts.

Senator BURDICK. From what appropriated account did the funds come to produce it? If you cannot tell us now, also tell us about that one.

Mr. BYRNE. The funds to produce the document came from REA's salaries and expense account.

Senator BURDICK. Your explanation of the President's budget is to be contained in your explanatory notes. What is the purpose of this additional document?

Mr. BYRNE. The explanatory notes, Mr. Chairman, explain the budget proposal in detail, while "Return to the Mission" was simply a statement of overall philosophy and strategy.

Senator BURDICK. You have proposals in it to do away with several provisions that were just enacted in the 1990 farm bill. It does not make sense to launch a time-consuming, expensive effort to undo what Congress has just legislated. Rather, you should spend your time and money on carrying out the law as Congress intended it.

Finally, your document indicates that REA is not fulfilling its mission and that it, in fact, has strayed from its mission. Congress has set the mission for REA. Are you telling me that you have been making loans and using REA funds for purposes not authorized by Congress, that do not meet the statutory mission? I would like to know what unauthorized activity REA is engaged in.

Mr. BYRNE. Mr. Chairman, I am not aware of any unauthorized activity that REA is engaged in.

CREDIT REFORM

Senator BURDICK. Secretary Vautour, credit reform has many people confused, both in Congress and in the administration. Under it, Congress will appropriate a subsidy level which will then allow for a certain level of loan activity. Your request to Congress was based on certain subsidy rates for each loan program.

Are you aware that the rates used by you as published in the President's budget are markedly different in some cases than the rates used by the Congressional Budget Office?

Mr. VAUTOUR. I am not aware of that. I would have to ask my budget people to advise me, and we will get that answer back to you, sir.

[The information follows:]

There are differences between the Administration's Credit Reform subsidy rates and those developed by the Congressional Budget Office. In some cases the differences are significant. This may be due to differences in assumptions about the performance of individual programs or to the overall assumptions regarding interest

rates. In general, the Congressional Budget Office is assuming higher interest rates in the future, which implies higher subsidy rates.

Senator BURDICK. All right. For example, in order to make the number of loans under the agricultural credit insurance fund as proposed by the President, we would have to appropriate $614 million instead of $510 million, as you request, an additional $104 million. Similarly, for the RDIF, the RHIF, and the REA, additional amounts of $9 million, $50 million, and $187 million would be required.

Do your rates reflect the actual subsidy levels of the programs, as demonstrated in past years?

Mr. VAUTOUR. Mr. Chairman, I think what you are referring to is the credit reform portion of the budget process that was passed by the Omnibus Budget Reconciliation Act of last year, and I would readily admit to you, sir, that I do not fully understand the credit reform measures.

However, as soon as we have been able to sort through them we will certainly get, again, a response to you in writing.

[The information follows:]

The actual program experience in recent years was the primary source for many of the specific subsidy assumptions. However, where program officials determined that future activity would differ from past "actual" activity, the projected trends were reflected rather than past experience in calculating the subsidy rates.

SUBMITTED QUESTIONS

Senator BURDICK. This concludes today's hearing. Thank you for your testimony. Additional questions will be submitted for written answers, and we ask you to respond to them within 5 days.

Our next hearing will be held on Friday, April 19, in this same room at 10 a.m. The subcommittee will receive testimony from the Commodity Futures Trading Commission, the Food and Drug Administration, the Farm Credit Administration, and the Farm Credit System Assistance Board.

The subcommittee stands in recess.

Another member of the committee has just arrived. We are not recessed. I did not know you were here. Sorry.

Senator SPECTER. Well, I just walked in. Thank you very much, Mr. Chairman. I regret that other commitments have prevented an earlier arrival. I do have some questions which I will submit for the record.

The issue which is before the subcommittee today is a very important one both nationally and for my State, and, as I say, as is well known, we have many conflicting engagements. But I do have some questions and I will submit them for the record.

Thank you, Mr. Chairman.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

FARMERS HOME ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

Rural Development Administration

Question: You indicate that you are supporting the creation of state rural economic development councils in 8 states and indicate $2.6 million in 1992 is for them. How much money are you spending on these councils in 1991, for what purpose, and what is the source of funds? How many more states would you involve in 1992?

Answer: The responsibility for State Rural Economic Development Councils has been shared broadly by the Federal Departments and Agencies. We estimate that spending by all Federal participants will total about $800,000 in 1991, including the pilot project establishing the eight rural economic development councils. In addition to the councils, we have established a Rural Development Institute, a training course in rural economic development that will be available to all units of government and the private sector. Two training sessions have been conducted already with about 372 participants from the eight states and the Federal government. For 1992, the President's Budget assumes an additional 24 states.

BACKLOG

Question: What is the backlog of demand for rural rental housing and farm labor housing loans and grants?

Answer: For rural rental housing, based on a June 1990 survey, there were 1,818 eligible preapplications on hand and 475 applications in process. This is the latest information we have on that program.

For farm labor housing, for which funds are held in the National Office, there are 11 authorized preapplications pending further review and approval, and an estimated 10 proposals under preapplication development.

Credit Reform

Question: For this year, in regard to ACIF, the Budget Reconciliation Act is controlling. It also purports to set loan levels through 1995 even though credit reform legislation says subsidies need to be appropriated. If there is no appropriations provisions for ACIF loans, what loan levels will be made available in 1992?

Answer: The Omnibus Budget Reconciliation Act (OBRA) of 1990 provides $4,343,000,000 for loan programs funded under the Agricultural Credit Insurance Fund; $861,000,000 for farm ownership loans and $3,482,000,000 for farm operating loans, in fiscal year 1992. It is our understanding that subsidy levels do not need to be appropriated for loan levels authorized by OBRA. Since spending for these loan levels was determined to be mandatory, under credit reform guidelines subsidies to fund these loan levels are available without appropriation action.

Question: What subsidy rate will be used in the actual disbursement of FmHA loans? Will it be the rate published in the budget or some other calculation made at that time? Who will make the calculation?

Answer: The estimated subsidy rate will be determined at the time loan obligations are made and will be held constant throughout the disbursement period. To the extent that rates differ at the time of disbursement from the time of obligation, indefinite budget authority for subsidies will be used to make up the shortfall. The subsidy rate published in the budget is based on an estimated Treasury interest rate furnished to credit agencies by OMB. When the loan is obligated, the subsidy will be recalculated with the Treasury interest rate in effect at that time. FmHA will make the calculation based on OMB's economic assumptions.

Field Office Specialization Project

Question: What 14 states are involved in your pilot office specialization project?

Answer: Arkansas, California, Georgia, Indiana, Louisiana, Michigan, Minnesota, Missouri, Montana, New York, Oklahoma, Tennessee, Texas and Virginia.

Question: How many states will be included in 1992?

Answer: We intend to run the project in the same 14 states for approximately two years. Therefore, the same 14 states previously mentioned will be included in 1992.

Question: Are any activities under this project being conducted by non-FmHA employees? If so, what employees and what activities?

Answer: Under the project, 95 percent of all appraisals will be performed by contractors. We will also use contractors for certain loan servicing and property management activities as necessary and within the scope of FmHA's current procedures.

Rural Housing Authorization

Question: Pursuant to Section 573 (c) of the National Affordable Housing Act of 1990, certain adjustments were made to family income which would be applicable to FmHA programs. Briefly, there would be a new 10 percent earned income deduction, the dependent allowance would be increased from $480 to $550, and there would be changes concerning the deductibility of medical expenses and alimony payments. Section 573 (e) provides that these amendments shall apply only to the extent approved in appropriations acts. Does FmHA consider that such approval was set forth in the 1991 appropriations act by reasons of the reference to both Title V of the Housing Act of 1949 and Section 521 (a) (2) of the same act in the appropriations language for FmHA?

Answer: No. FmHA interprets the authorization language as requiring specific appropriation language in order to implement these provisions consistent with HUD in terms of income adjustments.

Question: If so, are you implementing these provisions? If not, would such language suffice to implement the program in 1992? If not, what type of language would be needed to constitute approval by appropriations acts?

Answer: In order to implement the provisions for FmHA, we would need specific appropriation language.

Question: What would each of the costs be in 1992 to implement these provisions for the section 502 and the section 515 program?

Answer: This information will be provided at a later date because extensive recalculations are necessary.

Question: Do these provisions change the loans subsidy rates for each of the various loan programs? If so, by what amount? What would the new subsidy levels be if the loan levels proposed in the 1992 budget were to be maintained?

Answer: The questions you are asking would not be easy ones to answer. Such a reestimate may possibly be seen as a technical adjustment. That would have a fairly minor impact on the proposed subsidy rates in the Budget.

Rural Development Grants and Loans

Question: For the Rural Development Loan Fund and the Rural Development Grant accounts, please provide a list of recipients for 1989 and 1990 showing the amount and state with state totals.

Answer: Attached are listings of Rural Development Grants for fiscal years 1989, and 1990 and Rural Development Loans (Intermediary Relending Program) for the same time frames.

Industrial Development Grants
Fiscal Year 1989

STATE	GRANTEE	AMOUNT
AK	City of St. George	$425,000
AR	Sugarloaf Indus. Dev. Corp.	235,000
CA	County of Trinity	225,000
CO	Cumbres & Toltec Scenic RR Comm	150,000
FL	Sebring Airport Auth	452,100
GA	So GA Area Plng & Dev Com	100,000
IA	Indian Hills Community College	400,000
ID	Kootenai County	56,560
IL	Two Rivers Reg Coun of Pub Off	150,000
KS	Pottawatomie Econ Dev Corp	150,000
KY	Univ of Kentucky	300,000
LA	Village of Epps	312,000
MA	Town of Montague	125,000
MD	Rural America	500,000
ME	Coastal Enterprises	124,980
MI	Meyer Township	132,000
MN	City of St. Peter	100,000
MO	City of Carthage	75,000
MS	City of Lexington	212,500
NC	Duplin County	300,000
ND	Dunn County	100,000
NE	Southeast NE Dev Dist	100,000
NY	Ogdensburg Bridge and Port Auth	35,000
NV	City of Wells	57,300
OK	City of Bennington	45,000
	Pontotoc Co Comm	150,000
	Wes Watkins Area Vo-Tec Sch	45,000
OR	Burns Paiute Indian Tribe	200,000
OH	Vil of Byesville	50,000
PA	Susq Indus Dev Auth Solida	125,000
SC	SC Departmt of Agri	270,000
IN	Scott County	365,000
VA	Town of Chilhowie	42,560
VT	NE VT Dev Assoc	100,000
WI	Village of Balsam Lake	200,000
WV	Mid-Ohio Valley Area Dev Corp	90,000
	TOTAL	$6,500,000

Industrial Development Grants
Fiscal Year 1990

STATE	GRANTEE	AMOUNT
AK	City of Sitka	$149,000
AR	City of Salem	257,000
AZ	Payson Economic Dev.	83,000
CA	City of Lemoore	370,000
	Merced County	30,000
CO	Cumbres & Toltec	90,000
FL	Ponce De Leon	294,000
GA	City of Richland	50,000
	Talbot County	50,000
	S.E. Georgia RDC	121,100
	City of Hoschton	100,000
	South Georgia ARDA	54,300
	Bartow County	75,000
	Town of Mineral Bluff	48,900
HI	Maui Economic Dev.	100,000
IA	City of Maquoketa	31,000
	Rock Rapids Area	100,000
	Southern Iowa Council	70,000
	Dyersville	75,000
ID	City of Priest River	82,000
IL	Illinois, Dept. of	50,000
	Southeastern Il. Reg.	100,000
	City of Albion	53,000
	Southern Five	150,000
IN	City of Lebanon	104,900
	City of Greensburg	228,100
KS	City of Sabetha	70,000
	City of Winfield	44,000
	City of Chanute	100,000
KY	University of Kentucky	500,000
	Adair County Water	46,000
LA	Livingston Par. P.J.	151,500
	Greater Jennings	157,500
	Evangeline Par. P.J.	75,000
	Minden/SW Coc	250,000
MD	Community Transp. Assn.	500,000
MA	W. Mass. Enterprise	57,000
	Berkshire County	50,000
	Valley 2000	50,000
ME	Town of Jackman	113,000
	Eastern ME Dev. Dist.	125,000
	Coastal Enterprises	251,300
MI	City of Escanaba	202,000
	City of Benton Harbor	100,000
	Village of Vicksburg	182,000
	Meyer Township	23,500
	Village of Camden	250,000
MN	City of Chandler	100,000
	City of Menagha	50,000
	City of Maynard	74,000
	City of Royalton	32,000
	Warroad Port	122,000
MO	City of Shelbina	144,000
	City of Chillincothe	150,000
MS	Town of Mantachie	344,000
NC	Dunn Area Committee	100,000
	Northampton County	70,000

	Greene County	65,000
	Brunswick Electric	32,000
	Bladen County	120,000
	Town of Madison	55,000
	Craven County	65,000
	Town of Wallace	65,000
ND	Prarie Public	500,000
	Prarie Public	150,000
	City of Rolette	64,000
NE	West Central NE	102,000
NH	Town of Littleton	51,000
	City of Somersworth	20,000
NJ	Cedarville Co-op	136,000
NM	Taos County	50,000
NY	Chenango County IDA	100,000
	Jefferson County IDA	44,900
	Rural Opportunities	151,100
	Lewis Holding, Inc.	36,000
	Catt Econ. Dev. Zone	200,000
	New Enterprises	29,900
OH	Muskingum County	132,000
	Clark-Fayette Port	150,000
	New Vienna Village	90,000
	City of Norwalk	130,000
	Worker Owned	50,000
OK	City of Clinton	500,000
	Antler Ind. Authority	125,000
	Wes Watkins Vo-Tech	500,000
	Waynoka Industrial	200,000
OR	City of Oakland	152,000
PA	City of Oil City	200,000
	Clearfield Foundation	125,000
	Northern Tier Reg.	110,000
	North Central PA	200,000
PR	Org. Agri. BO.	472,000
RI	Town of New Shoreham	127,000
SC	Donalds-Due West	65,000
	Marlboro Water Co.	90,000
	Dorchester County	50,000
	Town of Chesterfield	25,000
	Town of Andrews	50,000
	Town of Aynor	108,000
	City of Bishopville	25,000
SD	Sanborn County	15,000
	Wessington Springs	10,000
	Sissetown-Wahpeton	54,000
TN	Dunn Diversified	250,000
	City of Bolivar	151,000
TX	Brenhan Industrial	380,000
	City of Stratford	100,000
UT	Five County Assoc.	40,000
	Bear River Assoc.	100,000
VA	Grayson County	500,000
	St. Charles Dev.	210,000
VI	VI Industrial Park	50,000
VT	Town of Marschfield	8,600
	Central Vt. Econ.	52,400
	Vermont ETV, Inc.	404,200
	Vermont ETV, Inc.	195,800
	Central Vt. Econ.	50,000
WA	City of Prosser	73,700
	City of Deer Park	57,300
	Town of Almira	57,000

WI	Village of Stratford	184,000
WV	Town of Florence	86,000
	Jackson Co. Dev. Auth.	16,500
	City of Williamstown	38,500
	City of Point Pleasant	100,000
	Regional Contract	40,000
	Mid-Ohio Valley Dev.	26,000
	Pennsboro Ind. Park	18,000
	City of Williamstown	25,000
	TOTAL	$16,406,000

INTERMEDIARY RELENDING PROGRAM LOANS
FISCAL YEAR 1989

STATE	BORROWER NAME	AMOUNT	STATE TOTAL
GA	Georgia Development Authority	$1,125,980	$1,125,980
IA	Albia Industrial Development Corp.	$900,000	$900,000
KS	Mid America, Inc.	$750,000	$750,000
NE	Nebraska Economic Development Corp.	$2,000,000	$2,000,000
NY	Lake Champlain-Lake George Regional Development Corporation	$500,000	
	New York Job Development Authority	$650,000	$1,150,000
NC	North Carolina Rural Fund for Development	$900,000	$900,000
OK	Miami Area Economic Development Service, Inc.	$1,000,000	
	Rural Enterprises, Inc.	$1,500,000	$2,500,000
PA	North Central Pennsylvania Regional Planning & Development Commission	$500,000	
	Northern Tier Regional Planning & Development Commission	$500,000	$1,000,000
SD	South Dakota Economic Development Finance Authority	$2,500,000	$2,500,000
UT	Deseret Certified Development Company	$800,000	$800,000
	TOTAL FOR FY 1989		$13,625,980

INTERMEDIARY RELENDING PROGRAM LOANS
FISCAL YEAR 1990

STATE	BORROWER NAME	AMOUNT	STATE TOTAL
AR	Community Resource Group, Inc.	$1,000,000	$1,000,000
CA	California Coastal Rural Development Corporation	$2,000,000	
	California Statewide Certified Development Corporation	$1,500,000	
	Del Norte Economic Development Corp.	$300,000	
	Rural Community Assistance Corp.	$2,000,000	$5,800,000
CO	Colorado Housing & Finance Authority	$1,200,000	$1,200,000
GA	Georgia Mountains Regional Economic Development Corp.	$1,500,000	$1,500,000
IL	Illinois Development Finance Authority	$1,500,000	$1,500,000
KS	Pioneer Country Development, Inc.	$300,000	$300,000
ME	Eastern Maine Development Corp.	$1,500,000	$1,500,000
NJ	South Jersey Economic Development District, Inc.	$1,000,000	$1,000,000
NC	Self-Help Ventures Fund	$1,500,000	$1,500,000
PA	Southern Alleghenies Planning & Development Commission	$500,000	$500,000
VT	Franklin County Industrial Development Corporation	$900,000	$900,000
WI	Impact Acceptance Corporation	$2,350,000	$2,350,000
	TOTAL FOR FY 1990		$19,050,000

Farm Ownership Loans

Question: What percentage of farm ownership loans goes to existing farmers to buy more land and what percentage goes to beginning farmers to buy farms?

Answer: FmHA does not define beginning farmers at the present time. The Agency is making the necessary changes to gather this information, to comply with Section 1822 of the Food, Agriculture, Conservation, and Trade Act of 1990.

Farm Loan Programs

Question: Do you have a policy for targeting loans to minority farmers?

Answer: The Agricultural Credit Act of 1987 requires FmHA to target insured farm ownership loan funds to socially disadvantaged (SDA) groups. In addition, Section 2501 of the Food, Agriculture, Conservation, and Trade Act of 1990 requires FmHA to target operating loan funds to SDA groups. In Fiscal Year 1991, FmHA has targeted $8,521,000 of insured farm ownership loan funds and $17,938,000 of insured operating loan funds to SDA applicants. In

addition, $50,000,000 of guaranteed farm ownership loan funds and $20,000,000 of guaranteed farm operating loan funds have been targeted to SDA applicants.

Question: It is alleged that this policy has the effect of cutting the amount of loans going to beginning and young farmers. Please comment on this allegation.

Answer: A portion of our operating and farm ownership loan allocation is targeted to minority farmers as required by law. However, loans to beginning and young minority farmers are included in these targeted amounts.

Emergency Community Water Assistance Grants

Question: This year we provided new funding for emergency community water assistance grants. How is that program being operated?

Answer: Applications are filed and processed by Farmers Home Administration's (FmHA) field office staffs. The State FmHA office requests funds for a project from the National Office. A national competitive process, which has been published in the Federal Register, has been established to select projects for funding. When a project has been selected for funding the National office transfers funds to the State. The grants are then obligated by the FmHA field office staffs after processing the request to the point of grant approval.

Question: What are you doing to ensure some form of geographical distribution of these funds?

Answer: The FmHA Administrator has the authority to assign additional points to a project's score to achieve geographic distribution of these funds. The FmHA Administrator is using this authority to distribute these funds to as many States as possible.

Question: What are the two categories for these grants?

Answer: One category, can only be used to correct a significant decline in quantity or quality of water that occurred within two years of filing an application with FmHA. Grants in this category cannot exceed $500,000. The second category does not have the two year restriction, but can only be used for repairs, partial replacement, or significant maintenance on an established system. Grants in this category can not exceed $75,000.

Question: Please provide for the record a list of the applications funded and on hand.

Answer: The information follows:

WATER AND WASTE DISPOSAL
EMERGENCY GRANTS

TOTAL FUNDS ALLOCATED BY STATE
April 17, 1991

STATE	PROJECT NAME	AMT	DATE ALLOC
AK	CITY OF MARSHALL	$ 350,000	04/03/91
CA	MARIPOSA CO WATER AG	500,000	01/16/91
CA	TULE RIVER INDIAN TR	175,000	01/16/91
FL	CITY OF LAUREL HILL	230,300	04/03/91
IA	SHELBY CO RWD # 1	45,600	01/16/91
IA	SIRWA - CLARK CO	500,000	01/16/91
IA	SIRWA - CRESTON	500,000	01/16/91
IA	SIRWA - RINGGOLD	500,000	01/16/91
IA	WAPELLO RWA-KEOKUK	500,000	01/16/91
IA	WAPELLO RWA-OTTUMUA	500,000	01/16/91
ID	CITY OF BLISS	18,000	04/03/91
ID	CITY OF WHITEBIRD	75,000	04/03/91
KS	CITY OF WHITING	55,000	04/03/91
KS	RDW #3,CHAUTAUQUA CO	500,000	04/03/91
ME	STONINGTON WATER CO	371,500	01/16/91
MO	PWSD #1 DEKALB CO	315,000	04/03/91
MO	PWSD #3, LIVINGSTON	500,000	04/03/91
MO	PWSD NO 1 MERCER CO	434,000	04/03/91
ND	CITY OF STANLEY	75,000	01/16/91
NM	CHILILI W&S COOP	75,000	04/03/91
NM	FAMBROUGH WCA	60,000	04/03/91
NV	MIDAS WATER COOP	146,100	01/25/91
NV	TOWN OF SEARCHLIGHT	500,000	01/16/91
NY	VILLAGE OF HERMAN	75,000	12/21/90
SD	CITY OF CARTHAGE	24,500	04/03/91
SD	CITY OF SPENCER	57,760	04/03/91
TX	CITY OF HUBBARD	73,300	04/03/91
TX	POST OAK WSC	500,000	01/16/91
UT	MT. CARMEL SSD	270,000	01/16/91
VA	WASHINGTON CO SA	344,955	04/03/91
VT	TOWN OF EAST HAVEN	120,000	03/07/91
WA	BARING WATER CORP	48,000	01/16/91
WI	AUGUSTA, CITY OF	491,300	12/21/90
WI	CITY OF KEWAUNEE	69,000	12/21/90
	Total	$8,999,315	

TOTAL REQUESTS ON HAND BY STATE
April 17, 1991

STATE	SCORE	PROJECT NAME	AMT
CA	60	DONEY STREET	$ 166,800
IA	100	POWESHIEK WA, BROOKL	500,000
IA	100	SIRWA, 3-MILE WS	500,000
IA	100	WCIRWA MANNING	33,400
IA	110	SIRWA - CRESTON	500,000
IA	90	SHELBY CO RWD, AVOCA	500,000
ID	40	CITY OF ARCO	100,000
ID	40	CITY WINCHESTER	75,000
MO	100	PWSD #1 KNOX COUNTY	490,000
MO	100	PWSD #1 MACON COUNTY	357,000

MO	100	PWSD #2 HARRISON CO	500,000
MO	100	PWSD NO 1 SULLIVAN	450,000
MO	40	CITY OF MAYSVILLE	484,000
MO	50	CITY OF JAMESPORT	313,500
MO	50	CITY OF KING CITY	385,000
MO	90	PWSD #1 CLARK CO	500,000
MO	90	PWSD #1 SCHUYLER CO	499,100
MO	90	PWSD #1 SCOTLAND CO	495,000
MO	90	PWSD #1 SHELBY CO	435,000
MO	90	PWSD #2 DAVIESS CO	495,400
ND	30	ALL SEASONS WATER	94,400
ND	50	CITY OF RYDER	22,500
NM	60	CANJILON MDWC ASSN	386,000
NV	60	SHOSHONE-PAIUTE TRIB	215,000
NY	50	MORRISTOWN	75,000
NY	70	TOWN OF WAVERLY	400,000
OK	40	WEST DAVIS RWC	55,000
SD	50	CITY OF ALEXANDRIA	50,000
TX	40	CITY OF LORENZO	211,000
TX	50	CITY OF GRANFILLS GA	337,900
TX	60	CHISHOLM TRAIL WSC	99,000
TX	60	MILITARY HIGHWAY WSC	150,000
UT	50	CORNISH TOWN	227,000
UT	50	TOWN OF BICKNELL	153,000
UT	50	TOWN OF GLENDALE	117,500
UT	50	TOWN OF KINGSTON	212,000
UT	50	TOWN OF ROCKVILLE	182,000
UT	50	WALES TOWN	142,200
UT	60	TOWN OF SPRING CITY	184,000
UT	60	TOWN OF STERLING	140,000
VA	30	TOMS BROOK M'TOWN SA	500,000
VA	50	SMYTH COUNTY PSA	75,000
VA	50	WASHINGTON CO MENDOT	256,230
VA	70	COUNTY OF HIGHLAND	75,000
VA	70	MONTGOMERY CO PSA	500,000
VT	30	TOWN OF ST JOHNSBURY	75,000
VT	50	VILLAGE OF LYNDONVIL	75,000
		Total	$12,788,930

Solid Waste Management Grants

Question: What is the status of the solid waste management grant program?

Answer: FmHA is working to develop the regulations needed to implement this grant program. The Agency is proposing to publish an interim final rule so that the funds that have been appropriated for this program can be used in fiscal year 1991.

Question: For what purpose will the grants be made available? Will they be only for planning and technical assistance or will they include actual cost of solid waste projects?

Answer: These grants will assist nonprofit associations in providing technical assistance and training to rural communities for solid waste management. The training and technical assistance provided will be in the areas of elimination of pollution of water resources and improvement of solid waste disposal facilities. These grant funds cannot be used for construction of solid waste facilities. Funds authorized for FmHA's water and waste disposal loan and grant programs under Section 306(a) of the Consolidated

Farm and Rural Development Act, as amended, can be used for actual construction.

Question: Will the size of the grants be limited, and if so, at what level?

Answer: FmHA has no plans to limit the size of the grants.

Question: Do you have applications pending for these grants? How many, in what amounts, and from whom?

Answer: FmHA has no applications on hand for this grant program.

Historic Preservation

Question: A couple of years ago we included money in your budget for a study on historic preservation and how the Department is addressing this issue. I understand that the study is complete and is titled "A Thirst of History." Please provide a summary of the study, for the record and a copy of the study to the subcommittee.

Answer: The study was recently received on March 7, 1991, and is undergoing final review. We will supply the study to your Subcommittee as soon as possible.

Question: What will the Department do as a result of the study?

Answer: Upon completion of the review process, FmHA will analyze the options available in light of its evaluation of the study and the recommendations contained therein, taking into account the FmHA statutory mandate, overall mission and budgetary imperatives.

Disadvantaged Individuals

Question: The secretary was directed to establish a farm ownership outreach program to socially disadvantaged individuals. What is the status of this program and how much money is being spent on it? What are you doing in this area?

Answer: Section 1852 of the Fact Act authorizes $2.5 million annually for Fiscal Years 1991 through 1995 for the Secretary to conduct the farm ownership outreach program to socially disadvantaged individuals, pursuant to Section 623 of the Agricultural Credit Act of 1987. The Secretary has not implemented Section 1852 of the 1990 Farm Bill because no funds have been appropriated for this purpose.

However, FmHA has designated $2 million to provide outreach assistance to Indians and members of other socially disadvantaged groups in accordance with existing regulations. In FY 1990, FmHA advanced $2 million to fund small farmer training and technical assistance projects in ten States through Cooperative Agreements with 1890 Land Grant Institutions and the Federation of Southern Cooperatives.

In FY 1991, the Agency has set aside $2 million to: (1) fund small farmer training projects in eight States; (2) conduct one or two small farmer conferences; and (3) provide intensive outreach assistance to Indians.

Further, Section 2501 of the Fact Act (1) authorizes the FmHA to target operating loans to socially disadvantaged farmers or ranchers based on established annual target participation rates for the States, and (2) provides for FmHA and other USDA agencies to establish and staff suboffices on Indian reservations, where needed, within the tribal headquarters. We have implemented the targeting of operating loan funds for socially disadvantaged farmers and ranchers, and have recently directed our State Directors to proceed in establishing Indian Offices in accordance with guidelines issued by the Department.

The following is a breakdown of insured farm ownership (FO) loan funds targeted and advanced to members of socially disadvantaged groups in FY 1989 and FY 1990:

Insured Farm Ownership Loans

	Amount of Targeted FO funds	No. FO loans made	Total Amount FO Funds Advanced
FY 1989	$9,544,000	168	$12,378,860
FY 1990	$11,151,000	136	$11,149,680
FY 1991 (as of 4/10/91)	$8,521,000	86	$7,018,740

In addition, 28 FmHA inventory farms were sold by credit-sale to members of socially disadvantaged groups in FY 1989 and 101 inventory farms were sold by credit-sale to members of these groups in FY 1990.

In FY 1991, $17.94 million of operating loan (OL) funds have been targeted for socially disadvantaged farmers and ranchers. As of this date, we have not received a report on the number and amount of OL loans made in this category.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Question: What actions are planned or under review in response to the GAO Report on the FmHA Appeals Process.

Answer: No action is planned by FmHA at this time since the GAO report contained no recommendations or required responses from FmHA.

Question: How has the January 17, 1990 regulation regarding appeals staff decision reviews changed the rate of FmHA decision reversals?

Answer: We have not noticed any change in the appeal reversal rate that can be attributed to the January 17, 1990 regulation, which allows for FmHA to request a review of a hearing officer's decision in certain circumstances.

Hearing officers are instructed to issue fair and impartial hearing decisions based on the evidence submitted at the hearing, the case file and applicable FmHA regulations. The hearing officer's decision should not be influenced by the possibility that his/her appeal decision may be reversed as a result of further appeal by the appellant or a request for review by the Agency.

Question: How many cases that are reversed or modified by the National Appeals Staff result in a loan closing or other action favorable to the appellant.

Answer: We do not keep records as to what appeal decisions result in a loan closing.

Question: What actions are being taken to ensure proper availability of FmHA services to eligible borrowers, especially the Emergency Loan Program?

Answer: Agency managers monitor field office operations closely to assure that FmHA services are provided to eligible borrowers. Based upon workload, state directors and district directors can and do move staff to backlogged offices temporarily to process requests and provide loan or guaranteed loan assistance as quickly as possible.

The Agency is also committed to helping applicants remove barriers to their receiving emergency (EM) and other types of assistance. FmHA staff will help farmers in their dealings with other creditors. When necessary, FmHA will work with farmers to reach agreements with other creditors, so that FmHA can provide emergency or other loan assistance. FmHA staff will also accompany a farmer to the lender to explain a guaranteed loan request package. FmHA county supervisors and other staff are required to assist applicants in completing documentation necessary to complete a loan request.

Finally, FmHA has a comprehensive appeals process to ensure that applicants whose request are rejected are treated in accordance with Agency regulations and policies.

Question: I have heard cases where farmers are being told by FmHA personnel that they will not qualify and should give up farming, but finally win on appeal. What is being done to protect farmers from the loss of FmHA services in such instances?

Answer: This kind of action by FmHA personnel is contrary to our procedures or training. However, with 1900 local offices it may occur and we would be interested in knowing about it. The appeal process is the protection for the applicant in these instances.

Question: How many pending land transfers of inventory properties are now before the national office? How many have been approved? How many are pending at the state office level?

Answer: As of April 19, 1991, 20 land transfer requests for conservation purposes are pending in the national office, 106 requests have been approved and 90 requests are pending at the state office level.

Question: How has the promulgation of regulations for the conservation title of the farm bill affected the land transfer program?

Answer: The 1990 Farm Bill has not affected land transfers for conservation purposes.

Question: I understand that a memorandum from the national office to the field offices instructs FmHA staff that funds for operating loans should be made available for those who have a "reasonable chance for success." What criteria are you using to meet that test that might be any different from years past?

Answer: FmHA is not applying any new tests or procedures that are different from years past, but is placing more emphasis on credit quality to assure optimum potential for the borrowers success.

In order for FmHA personnel to determine which applicants/borrowers exhibit a reasonable chance for success, a careful analysis is performed. FmHA has always employed the use of analyses and farm plans, but additional emphasis is being placed on utilizing realistic prices, production yields and expenses based on historical data in development of all applicant/borrower's farm plans.

We are beginning a training program for all loan officers that will improve their knowledge of farm management and enhance their ability to assist their borrowers.

QUESTIONS SUBMITTED BY SENATOR HARKIN

Question: Many farmers are having trouble obtaining operating credit for this spring. What is the status of the distribution of FmHA direct funds and the provisions of loans under the new guaranteed loan program?

Answer: FmHA's insured operating loan allocation for Fiscal Year 1991 is $493,300,000. As of April 18, 1991, $333,908,000 of that amount has been obligated. The insured farm ownership loan allocation for Fiscal Year 1991 is $57,200,000, of which $44,184,000 has been obligated.

Under the Interest Assistance program, FmHA received $39,300,000 for guaranteed farm ownership loans. To date, $13,655,000 has been obligated. In the guaranteed operating loan program, $442,700,000 was allocated. To date, $21,789,000 has been obligated.

Question: It is my understanding that the new interest rate assistance program was implemented in February of this year. How has the new program been publicized?

Answer: All FmHA State Directors have provided or are currently providing Interest Assistance training to their local field staff and lenders.

All applicants for guaranteed loans will be notified in writing about the Interest Assistance program. As part of "Operation Assist," any FmHA borrower or applicant who may qualify for private credit will also be notified. Further, the program has been covered by the news media, especially in rural communities across the country.

FmHA has opened, informal lines of communications with both the ABA, the IBAA and Farm Credit System. FmHA has met with ABA and IBAA officers, staff and members to discuss this program. Also, FmHA prepared news releases to be sent to ABA, IBAA and Farm Credit System for publication in their newsletters.

Question: How many farmers have applied for a reduced interest rate loan?

Answer: Through April 19, 1991, 1,723 farmers have applied for a reduced interest rate loan under the new interest rate assistance program.

Question: How many such loans have been approved?

Answer: Under the new interest rate assistance program, 210 guaranteed operating loans have been approved and 84 guaranteed farm ownership loans have been approved as of April 18, 1991.

Question: What is the amount of funds that have been distributed under the program and the amount of interest rate reduction provided?

Answer: The amount of subsidy that has been obligated under the guaranteed operating loan interest assistance program is $15,515,000, at an average subsidy rate of 3.4 percent. Under the guaranteed farm ownership interest assistance program, a total of $9,515,000 has been obligated at an average subsidy rate of 3.5 percent.

Question: Of those applicants disapproved for the loan, how many rejections were based on the 10 percent debt service requirement?

Answer: It is really too early to tell. Based on a limited survey (10 states) we estimate that 136 applicants may have been disapproved nationally, based on the 10 percent debt service requirement.

Question: What is the status of debt restructuring applications that were pending prior to November 28, 1990?

How many debt write-downs have been provided?
How many inventory purchases have occurred?
How many net recovery buy outs have occurred?
How many appeals are pending?

Answer: A survey was conducted of all FmHA County offices (excluding Hawaii) on April 24, 1991. The status of debt restructuring applications that were pending prior to November 28, 1990 is as follows:

359 debt write-downs have been provided.
144 borrowers have obtained their property through either buyback or leaseback.
619 net recovery buy outs have been completed.
1201 appeals are pending on debt restructuring applications.

Question: What is the time frame for issuing regulations to implement provisions of the 1990 Farm Bill?

Answer: Most of the 1990 Farm Bill provisions are expected to be implemented during fiscal year 1991, and the remaining will be implemented by mid-fiscal year 1992.

Question: It is my understanding that farmers who have won their appeals are having problems in getting those decisions actually implemented. How many cases are in this category?

Answer: There are 62 cases where action has not been initiated. States have been instructed to implement appeal decisions in a timely fashion.

Question: I understand FmHA has regulations that allow the Administrator to overturn decisions of the National Appeals Staff. How many NAS decisions have been overturned by the Administrator?

Answer: FmHA regulations do not address the authority of the Administrator to overturn decisions of the National Appeals Staff. Eleven decisions have been overturned by the Administrator, since July 14, 1988. The Administrator only overturned a decision when the implementation would have resulted in unauthorized assistance.

QUESTIONS SUBMITTED BY SENATOR CONRAD

Question: As you know, the Omnibus Budget Reconciliation Act of 1990 shifts significant funds from the direct to the guaranteed loan program over fiscal years 1991-1995. However, it stipulates that if FmHA does not use at least 30 percent of this shifted money to guarantee loans for direct loan borrowers seeking to graduate, than fewer funds will be shifted in the following year. What percentage of new guaranteed loans have you made to direct borrowers seeking to graduate?

Answer: FmHA is exceeding the 30 percent requirement in the shift of funds to interest assisted guaranteed loans. This requirement applies only to the funds shifted to interest assisted guaranteed loans.

Current obligations show the percentage of guaranteed interest assistance loans made to direct loan borrowers for fiscal year 1991 is 50 percent for farm ownership loans and 55 percent for operating loans.

Question: How many applications do you have on hand for direct farm ownership loans? I am concerned about the Administration's FY 1992 budget proposal to cut guaranteed farm ownership loans to $200 million.

Answer: As of April 5, 1991, there were 1,584 applications on hand for direct farm ownership loans.

Question: How many applications do you have on hand for guaranteed farm ownership loans?

Answer: As of April 5, 1991, there were 519 applications on hand for guaranteed farm ownership loans (FO). The average FO guaranteed loan is currently $145,000.

Question: How many funds are still unobligated for these programs?

Answer: As of April 18, 1991, unobligated insured farm ownership loans totaled $13,184,000 and unobligated guaranteed farm ownership loan funds totaled $625,540,000.

Question: I am concerned about your requirement that borrowers must have a 10 percent debt service reserve to qualify for interest assistance under the new interest assistance guaranteed loan program.

Answer: The ten percent debt service margin is a requirement for all guaranteed loans. The buy down of the interest rate of up to four points may be used to help meet this requirement under the

interest assistance program. The 10 percent reserve provides a "cushion" for risk and uncertainties associated with the farming operation. It allows the farmer a "margin for error" if prices and/or production fall short of targets, or if expenses run higher than planned. Without any margin, the farmer is walking a tightrope, with any unforeseen event threatening the farm business.

Requiring a ten percent debt service reserve (i.e, the balance available to pay debts must be at least 110 percent of the total installments due) is the first step in improving loan quality. It is consistent with OIG and GAO reports advising the Agency that loan quality needs to be improved.

Question: How many guaranteed loans have you made thus far under the new interest assistance loan program?

Answer: Through April 18, 1991, 210 guaranteed farm operating loans in the amount of $21.8 million and 84 guaranteed farm ownership loans in the amount of $13.7 million have been made under the interest assistance loan program.

Question: How many applications have been denied under the new interest assistance guaranteed loan program?

Answer: Through April 18, 1991, 203 applications have been denied under the interest assistance guaranteed loan program.

Question: How many were denied due to the 10 percent debt service reserve requirement?

Answer: Since the program just started it is too early to tell. Based on a limited survey of 10 states, we estimate that 136 applicants may have been disapproved nationally based on the 10 percent debt service requirement.

Question: How many applications are still pending?

Answer: Through April 19, 1991, 1,156 applications are still pending under the interest assistance guaranteed loan program.

Question: How many appeals before the National Appeals Staff are outstanding at this time? In your opinion, does the NAS have adequate staff to handle its workload?

Answer: As of April 17, 1991, there were 1,491 pending appeal hearing requests and 1,227 pending appeal review requests. The outstanding appeal hearing cases do not constitute a backlog since they represent an average of 18 active cases per hearing officer, or about 1 1/2 to 2 months work. Therefore, most appeal hearings are held within an average of 45 days from the date of request. More cases have proceeded to the review stage than we had anticipated. We are shifting personnel from conducting appeal hearings to conducting appeal reviews, to handle the backlog at the review stage. This is an ongoing process, and overall I believe our National Appeals Staff has adequate resources to handle this workload as we reassign the work force.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Rural Development Administration

Question: The budget request includes some $70 million to transferred from the FmHA salary and expense account to the new Rural Development Administration (RDA). How will those funds be used? What will be the impact of the transfer on FmHA? Can FmHA continue to operate efficiently and effectively with a reduction of that size?

Answer: The $73 million to be transferred from FmHA to RDA will be used to pay the costs of administering the programs mandated to be transferred from FmHA to the RDA by the 1990 Farm Bill. There will be some impact on both FmHA and the RDA as a result of the reorganization. However, it is my intent that the impact be minimized and the programs continue to be delivered as they are now. Because this is a transfer of staff and associated salaries and expenses and not a reduction, there should be no reason that FmHA can not continue to operate as efficiently and effectively as they are now. The duties and responsibilities being transferred are proportional to the staff resources being transferred.

Question: Can you describe the structure of RDA? Will it have state offices, district offices? What will be the precise role of the RDA; what programs will it administer?

Answer: The structure of RDA is still being developed. There will be a RDA presence in each state and there will continue to be district lending offices through which the programs are delivered. Whatever the final structure, the reorganization is being guided by three principles; (1) there is no disruption in the delivery of programs; (2) the programs are delivered at the lowest possible organizational level, just as they are now, and (3) no adverse impact on county office of FmHA.

The precise role of RDA is to improve the coordination of the delivery of Federal programs at the local level and to improve the assistance given local and state governments in developing meaningful and successful economic development strategies. RDA will administer those programs transferred by the 1990 Farm Bill, i.e. the water and waste loans and grants, community facility loans, business and industry loan guarantees, rural development grants, intermediary relending program and a variety of smaller programs currently administered by the Community and Business Programs Division of the FmHA. Other programs may be transferred to the new agency, but no decision has been made on any such transfers at this time. For the time being, resources will be concentrated on a smooth transfer of the mandated programs.

Question: Currently, FmHA administers rural rental housing and community development programs out of the district offices. Is it your intention to convert these district offices to RDA offices? What is the likely impact of such a move on the rural rental housing program?

Answer: District Office concept will continue to supervise FmHA County Offices. RDA Offices will be colocated for the time being and the number of them will vary according to caseload.

Question: Beyond FmHA community development programs, the Secretary has the authority to transfer other programs as he deems appropriate to the RDA. Do you anticipate that any housing program

currently administered by FmHA will be transferred now or in the future of the RDA?

Answer: We have no plans to transfer any FmHA housing program to RDA.

Question: What steps, if any, will be taken to create this new agency this fiscal year--1991?

Answer: The President's 1992 Budget requests funding for the new organization beginning in fiscal year 1992. In January of this year a small group was formed to plan the implementation with that objective in mind. No steps will be implemented in fiscal year 1991.

Rural Economic Development Review Panels

Question: What is the status of regulations regarding the Rural Economic Development Review Panels which are established in the 1990 Farm Bill? How many states have applied to participate in this demonstration program?

Answer: The regulations are being drafted and will be published as final regulations later this year. A number of States have expressed interest in participating in the pilot project, but until the regulations are published we will not be in the position to accept formal applications.

Rural Rental Housing

Question: The budget request also proposes to reduce rural rental housing by $232 million and to substitute rural housing vouchers under a separate account. I understand there is a substantial backlog of approved preapplications and final applications for rural rental housing funds. Why are these funds being cut?

Answer: We believe that the housing voucher program is a better vehicle for the provision of affordable housing in areas where there is little potential for community growth and an available supply of adequate housing for rent. While there is a pipeline for rural rental housing, the remaining funds could be used to provide funding for those preapplications proposing rental housing construction in areas of most critical need. We also are concerned that overbuilding could lower real estate values in these areas.

Question: Also, I understand that the voucher program is not yet authorized under title V of the Housing Act. Has the Administration proposed legislative language on this?

Answer: FmHA has been advised that Title V of the Housing Act of 1949 need not be amended for the rural housing voucher program to be implemented. The Appropriation language proposed would be sufficient to allow the rural housing voucher program to be implemented by FmHA in FY 1992.

FEDERAL CROP INSURANCE CORPORATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

CROP INSURANCE

Question: The conference report language accompanying the 1991 appropriation for crop insurance contained language returning the crop insurance program to the control of the Agricultural Stabilization and Conservation Service so far as sales and loss adjustments are concerned. What decisions have been made to implement this language?

Answer: We are still in the process of working with ASCS to evaluate our full range of options. We have not completed our process of evaluation with ASCS, but we anticipate completion in the near future. We will keep the committee advised.

NON-STANDARD CLASSIFICATION SYSTEM

Question: You indicate that you have reviewed soybeans for 1991 under this system and that you will be reviewing barley, corn, cotton, grain sorghum, peanuts, and wheat for 1992. You further indicate that contracts are selected based on the insured's loss frequency and loss severity. To be revised, the insured must have at least three loss years in the NCS base period and a loss frequency of .6 or greater. What is your authority for implementing the non-standard classification system?

Answer: Section 508(c) of the Federal Crop Insurance Act, as amended, states: "The Corporation may fix adequate premiums for insurance at such rates as the Board deems actuarially sound to cover claims for losses on such insurance and to establish as expeditiously as possible, a reasonable reserve against unforeseen losses." In addition, Section 508(a) states: "The Board may limit or refuse insurance in any county or area, or on any farm, on the basis of the insurance risk involved."

FCIC codified these authorities in Title 7, Code of Federal Regulations, Chapter IV, Subpart O - Nonstandard Classification System (NCS). NCS permits FCIC to charge an actuarially sound premium rate and offer yield coverage commensurate with the insurance risks associated with individuals reporting unusually severe and frequent losses.

Question: What is the base period? Is it a consecutive number of years?

Answer: The base period for NCS as defined in the Federal Regulation is the 10 preceding crop years through the next to last crop year. The years in the base period are consecutive.

Due to past automation problems in recording insurance experience prior to the 1983 crop year, the base period for NCS has not reached 10 years.

The base period for 1991 soybeans and 1992 barley and wheat was the 1983 through 1989 crop years.

The base period for 1992 corn, cotton, grain sorghum and peanuts was the 1983 through 1990 crop years.

The base period for NCS will be expanded to 10 years for all crops by the 1995 crop year.

Question: What does a loss frequency of .6 mean?

Answer: The loss frequency of .6 is one of the selection standards used in the NCS selection process. This standard is applied only after the insured has incurred at least 3 losses in the NCS base period. A loss year is defined as any year the insured collects a crop loss greater than premium paid in that year for that crop. The loss frequency for an insured is determined by dividing the number of loss years by the number of years of insurance experience. An example would be an insured who has had 3 loss years in 5 years of insurance experience. In this case, the insured's loss frequency is .6, or 60 percent of the years he was insured.

Question: Your program also stipulates that selected contracts will be reviewed to determine why the loss experience has deviated so greatly from the norm of the state. What reasons might be justifications for not adjusting the insured's rates or coverage? Is drought such a reason? Are other natural disasters justification for no adjustment?

Answer: The NCS program attempts to focus on those individuals who have an unusual frequency and severity of loss. The cause of loss, drought or other natural disasters, is not the focus of NCS. Rather, NCS tends to minimize the impact of natural disasters felt by all growers in an area, thereby isolating those who report extraordinarily severe losses under the prevailing circumstances. NCS candidates report losses much more severe than other insureds in the same geographical location.

FCIC will consider all information provided by selected NCS insureds to ensure the proposed classification is objective and accurately assesses the risks involved.

Question: What reasons would be justification for adjusting the insured's rates or coverage?

Answer: The reasons for adjusting an insured's rates and coverages under the NCS program is the insured's abnormal loss experience. This loss experience always greatly exceeds the loss experience of other insureds within the same geographical location in terms of frequency and severity. These adjustments are necessary to meet the statutory mandate to charge actuarially sound premium rates.

Question: If adjustment is determined to be necessary, will the current contract be adjusted or only future contracts?

Answer: When an insured's contract is adjusted under NCS, these adjustments take effect the following crop year, not during the current crop year. Adjustments being made to insured's contracts for barley, corn, cotton, grain sorghum, peanuts, and wheat will not take effect until the 1992 insurance crop year.

Question: How is the size of the adjustment calculated? Give a specific example.

Answer: The adjustments are calculated using a series of formulas. Computer programs are used to accomplish the actual calculations.

The formulas require a minimum of three years of data on total liability -- that is, the product of yield guarantees, acreage and price election -- total premium paid, total indemnities, total production -- including production for which indemnities were not paid -- and actual yield. This data may require segregation by production practice or type, and the data must be available for each year. The formulas account for both the frequency and the severity of losses for which indemnities were paid and comparisons are made between the insured's individual data and state values.

Adjustments are made in the liability FCIC will accept under the Non-Standard Classification System and the premium rate charged for such coverage. In other words, it is possible that a significant adjustment in liability could be made, with minimal impact on the premium rate. Also, adjustments are made to account for individual farmer history as well as for the land insured.

Because the range and number of data variables that may apply is quite broad, it is impossible to provide a specific example that would be representative. Also, the number of steps involved in the process make it difficult to express the calculations in simple, but meaningful terms. However, if you wish more detailed information, we will be glad to provide it.

Insureds that have been affected by the Non-Standard Classification System may request a detailed explanation of the calculations that were made for the adjustment they received.

Question: Is there a limit to the size of the adjustment that can be made?

Answer: Due to the extreme loss experience of insureds selected for the NCS, there is no limit to the size of the contract adjustments. FCIC is analyzing the feasibility of capping rate adjustments to the insured's contract loss cost ratio -- which indicates the historic premium rate that would have been necessary for FCIC to break even. However, with FCIC required to set premium rates to cover expected losses plus accumulate a reasonable reserve, capping adjustments will likely delay FCIC actuarial soundness.

Question: Will there be adjustments made every year, or is this a one-time expansion of NCS?

Answer: Insureds having their rates and coverages affected by the NCS program have their contracts updated on a yearly basis. Once the NCS insured no longer meets the NCS selection criteria, they are removed from the NCS program and their standard insurance offer is reinstated.

1991 COSTS

Question: What is the projected loss ratio for 1991?

Answer: We are currently projecting a 1.40 loss ratio for 1991. There is currently no data to test the accuracy of this projection.

Question: What amount of premium has been written to date for 1991 and what is the projected aggregate premium amount?

Answer: As of Friday, April 12, 1991, Crop Year 1991 premium written was $96.5 million compared with approximately $105 million this time last year. The aggregate premium for Crop Year 1991 is projected to be $886 million.

QUESTIONS SUBMITTED BY SENATOR HARKIN

SUPPLEMENTAL & ALTERNATIVE COVERAGE AND RATES

Question: The 1990 Farm Bill directed FCIC to set up a system to reinsure supplemental coverages and rates developed competitively by the private sector. In Iowa, we are hoping that this will result in risk management programs that will work for the very best commercial producers because the present FCIC programs do not. What is current status on your implementation of the reinsurance program for these supplemental rates and coverages and alternatives to the basic government designed program?

Answer: We are hopeful that through these provisions FCIC, in conjunction with our private sector partners, will be able to better meet the farmer's insurance needs. Given the emphasis Congress has placed on FCIC operating an actuarially sound program, carefully crafted standards to guide new program development must be developed in order to ensure a quality product is produced prior to the application of Federal subsidies and reinsurance. Once developed, FCIC will seek public comment on the standards to ensure they are workable.

Question: Why was this matter not given a higher priority in FCIC?

Answer: Implementing all of the provisions of the Farm Bill is the Agency's highest priority. Due to the financial exposure of taxpayer funds under the terms of any reinsurance agreement, FCIC plans to carefully, systematically and objectively develop evaluation criteria to judge proposed agreements from the private sector.

Question: Can you move its implementation up so that companies have the opportunity to offer these programs for the 1992 spring planted crops in Iowa?

Answer: The proposed standards for the development of new programs has not been published for comment. We plan to have our approval process in place by January 1, 1992, which may permit some limited opportunities for FCIC reinsurance on company developed

policies for spring 1992. However, a more probable target is Fall, 1992.

Private sector crop insurance companies are currently able to develop crop insurance policies and sell them to farmers. In fact, insurance companies are currently selling, without benefit of FCIC reinsurance, an oilseed policy that covers canola, safflower and sunflower that was developed and rated by the private sector.

Under that policy, farmers may purchase 50 percent coverage without optional units, price elections, quality adjustments or additional levels of coverage. Compared to FCIC's current program, for the same level of coverage in two contiguous counties in Montana, the privately developed policy sells for $7.74 per acre while FCIC's policy sells for $1.58 per acre.

PROGRAM COST

Question: I've heard people say that the cost of the program has escalated dramatically in the past ten years. However, it is my understanding that FCIC delivery costs in the late 1970s were about 36 percent of premium and the delivery of FCIC policies was determined by the Arthur Andersen Study commissioned by FCIC to be about 85 percent of premium. Why are the FCIC costs so high for delivering federal policies?

Answer: The Arthur Andersen (AA) Study estimated that expense reimbursement to the reinsured companies plus the FCIC overhead costs applicable to reinsured companies, as calculated by AA, accounted for 43 percent of premium (not including underwriting gains). For sales and service contractors, these same costs accounted for 85 percent of premium. Estimates of delivery costs vary with the amount of FCIC overhead assumed for each delivery system. FCIC estimates the total costs of delivering crop insurance policies through sales and service contractors, to be only 44 percent of premium.

FCIC has contracted with KPMG Peat Marwick, for an assessment of its organization and staffing requirements. This issue has been made a consideration of the Study.

Question: Is there any reason why these costs should exceed what you are paying private companies to do the same job?

Answer: Ideally, FCIC should contain the costs of direct policies to levels commensurate with reinsured companies. As indicated, a review of these delivery costs will be considered in the organization and staffing study.

Question: Will you be making cost adjustments for 1992?

Answer: Until the final report from the KPMG Peat Marwick review of our current organizational structure is completed and submitted, it will be difficult to project any cost adjustments for 1992. The KPMG Peat Marwick study report is expected to suggest some organizational changes that should aid the FCIC in providing a crop insurance program that is more efficient and cost effective without sacrificing service to the farmers. Our 1992 budget request

does not reflect any significant cost adjustments, but adjustments will likely be made as a result of the implementation of the results of this study.

CROP INSURANCE ROLE IN FARM POLICY

Question: With the steady reduction of farm price support programs, which requires farmers to get more of their income from the marketplace, crop insurance is becoming even more important as a publicly-supported risk management/economic safety net. In this regard, I am concerned that the efforts to make the program actuarially sound could make the program unaffordable in certain high risk areas and unattractive to many lower risk producers. Could you estimate for the committee today and provide a list later of the county crop program that you currently consider actuarially sound and still affordable; those that to keep affordable will likely not be actuarially sound; and those for which you are uncertain in which category they will ultimately fit?

Answer: In January, I directed the Actuarial Services Division to perform an analysis which will show those counties that are considered actuarially sound for the 1992 crop year. In addition, the report will indicate the magnitude of change needed to reach actuarial soundness in the remaining areas. Affordability is a consideration beyond the scope of the study, and one which would require an interactive effort with producers. This report is due May 24, 1991. We will furnish a copy to the Committee when it is completed.

Question: Could you provide an approximate breakdown of costs (administrative and excess losses (separately)) for each of these groups?

Answer: The study due to me by May 24 will also approximate the breakdown of costs.

Question: Does FCIC consider changes in policy forms, changes in administrative rules, and changes of rates each as components that can be changed to improve actuarial sufficiency?

Answer: Yes, FCIC is pursuing all three avenues to improve actuarial sufficiency. The FCIC strategy is to: 1) adjust rates to achieve a target of actuarial sufficiency, 2) develop an underwriting strategy to restrict losses for high risk situations, and 3) to reevaluate policy terms and conditions.

Question: Did you make such an analysis for 1991 changes?

Answer: Yes, a rate review was conducted for all crops in 1991. We implemented the Non-Standard Classification System for soybeans in 1991 and are expanding it to additional crops beginning in 1992.

Question: Could you provide the committee with a copy of an evaluation that shows why you choose to change one component (described in my previous question) as the best approach?

Answer: The various components of the crop insurance program are all interrelated. Therefore, there is no "best approach" that involves changing only one component as the means to improve the actuarial soundness of the program. It is important to act on several components of the program in concert to make meaningful improvements possible.

FARMER PARTICIPATION

Question: A high level of farmer participation is vital so that we avoid the pressure for disaster payments when losses occur. The current Farm bill also seriously reduced the economic safety net of price support programs so that crop insurance is a very important risk management and economic tool. I understand that in Iowa the FCIC rate increases for 1991 have caused heavy cancellations among lower risk producers that insured for 1990. Are you aware of this situation?

Answer: I am aware that heavy cancellations for 1991 among lower risk producers in Iowa is rumored to be occurring. However, we do not have the information necessary to substantiate or refute the rumors. Policy data are not submitted to FCIC until late summer or fall. Other factors, such as favorable moisture in Iowa during the early part of this year, may be contributing to the cancellation rate. Participation in 1989 and 1990 was greater than normal because of requirements of the Disaster Acts of 1988 and 1989. Typically these insureds will cancel at a rate higher than normal as the requirement expires.

Question: Did you have consultation with the private crop insurance industry, agriculture banking organizations or producer groups to determine the impact of the rating changes before you implemented them?

Answer: My new tenure with FCIC did not present ample opportunity to review new rates externally. I am told that consultation with the private insurance industry, agriculture banking organizations, and producer groups has not been a part of the rate making or rate adjustment procedure.

Recently, efforts have been made to modify this approach. For example, FCIC set up an Actuarial Improvement Coordinating Committee in 1988. The committee consisted of FCIC management and actuaries, private company actuaries, an underwriter, a university researcher, and representatives from the National Crop Insurance Association. The committee met numerous times to discuss actuarial and underwriting issues. Suggestions from the committee were included in the final 1991 ratemaking methodology. In addition, the FCIC published for public comment in the Federal Register on February 15, 1991, a summary of the current rate making methodology. The agency will review and carefully consider all comments.

Question: If so, were you advised that the high cancellation notices were likely to occur?

Answer: Yes, I was advised that increased rates may lead to cancellations. FCIC acted on the concerns by permitting a cap on rate increases to be used. Rate adjustments are needed to improve

the actuarial soundness of the crop insurance program, as mandated by Congress. In all cases, we will attempt to make adjustments prudently and with sensitivity.

Question: Is it possible that without the lower risk producers, the remaining higher risk producers could actually cause a decrease in actuarial sufficiency of the program, even with the increased rates?

Answer: Yes, it is possible. However, rate adjustments to achieve actuarial soundness should benefit the low risk producer and more fairly place the burden of crop insurance losses on high risk producers, crops and practices. The actual effects will be dependent on the magnitude of cancellations and experience of the producers who remain in the program.

Question: What system does FCIC have for correcting problems such as the increased cancellations of lower risk producers, other than simply having them cancel their policy?

Answer: FCIC will retain lower risk producers if they perceive their crop insurance protection as attractive and affordable. FCIC offers an Actual Production History (APH) approach to yield calculation that provides higher averages for producers with high yields. Premium rates are lower for better producers. FCIC is pursuing action to adjust rates for high risk producers to keep rates low for better farmers. Finally, FCIC acted to cap rate increases in 1991 to reduce potential cancellations by better producers.

Question: Would you please provide a written response as to what FCIC could do to avoid this problem occurring again?

Answer: In keeping with Congressional mandates, premium rate adjustments will be held to less than 20 percent in 1992, and a mechanism will be established to act upon exceptions.

In addition, FCIC will seek public scrutiny and comment on the key factors influencing rate determinations. As mentioned earlier, FCIC has already published a Federal Register notice to seek comments on our rate making models and methodology.

DELIVERY OF CROP INSURANCE

Question: Have you considered allowing master marketers to become managing general agencies (MGA) and gradually becoming reinsured companies?

Answer: FCIC is encouraging Sales and Service Contractors (SSC) to gradually assume activities similar to those performed by many MGA's, such as responsibility for processing information. However, before SSC's can assume these activities they must overcome problems related to processing, premium calculation, billing and receipt, in addition to possible financial requirements and capabilities.

Question: With the current compliance system of FCIC, couldn't a MGA also supervise the loss adjusters as is done by MGA's in the private sector?

Answer: The current compliance function is designed to provide oversight over Reinsured Companies' MGAs and the direct written sales, service, and loss adjustment activities. With proper allocation of resources, this same compliance strategy can be employed to monitor contracted program responsibilities, regardless of the delivery system, provided that proper incentives are included to address sound loss adjustment performance.

Question: Wouldn't that eliminate government duplication of what the private sector can do as the 1991 Farm bill directed?

Answer: To the extent it is practical and cost effective, FCIC believes this is a step to that direction.

Question: Will FCIC give consideration to this idea?

Answer: FCIC will consider this idea as a part of its efforts to develop a new 1992 Sales and Service Contractor Agreement.

OPERATING AGREEMENTS

Question: I understand that FCIC plans to implement a new reinsurance agreement in July, 1991, and hopes to make it a long term agreement. I think that substantial changes need to be made in the current agreement, but am very concerned that FCIC not move too fast and thus cause a lapse in service to some policyholders. What have been the industry responses to the draft that was published in the federal register for comment by March 31, 1991?

Answer: The industry has been very active in responding to the proposed 1992 Standard Reinsurance Agreement both at public meetings and in written analysis and suggestions for changes to the final document. The industry recognizes the need for increased risk sharing combined with the primary responsibility to assure an improved program is delivered to the farmer. However, they have voiced concern about several provisions of the proposed SRA. In particular, they have requested the FCIC to carefully consider their financial capabilities as outlined in the Farm Act.

Question: How is FCIC utilizing these comments?

Answer: FCIC is carefully considering every comment it has received and is evaluating proposed alternatives for each issue before any decision is made. Many companies have provided extremely helpful information to contribute to decisions that are in the best interest of all parties concerned.

Question: Has FCIC considered simply amending the current agreement to make it comply with the 1990 Farm Act and use it one more year and use the additional time until July 1, 1992 to make sure that there is a good long term agreement ready?

Answer: FCIC is confident that an acceptable risk management agreement can be implemented by July 1.

Question: Couldn't the additional year better provide opportunity to write the new agreement so that the two delivery systems could be merged into one?

Answer: We plan to draft the 1993 agreement much earlier in the year. This will allow the industry and FCIC more time to reach agreement upon Standard Reinsurance Agreement (SRA) changes in the best interest of the farmer, taxpayer, FCIC and the crop insurance industry.

RATING METHODOLOGY/FIXING PROBLEMS

Question: I commend you for asking for comments from the public on FCIC's rating methodology. However, I'm concerned with the process FCIC has in place to fix problems for a current year. What system is used to fix a premium or policy term that is published for a given year and then found to be unacceptable.

Answer: FCIC has an independent appeals process to address concerns on its policies. Reinsured companies and agents raise concerns to FCIC for resolution.

In addition, I have directed the Actuarial Services Division to develop a reconsideration process to review and revise crop rates for 1992 and future years.

Question: Can you cite some examples of how county rating problems were corrected for 1991 after they were published?

Answer: I issued a Bulletin (MGR-91-003) on February 12, 1991, authorizing individual rate increase limitations for the 1991 crop year. It was followed up by Actuarial and Underwriting Services Bulletins describing the procedure.

Question: Is the current system adequate?

Answer: No, although it operates smoothly, the appeals process is too formal and time consuming to address all problems. Hence, I've directed the development of a rate reconsideration process for 1992. We hope to provide equitable review of rates in an expeditious manner.

Question: Does it meet the needs of producers?

Answer: The current system did not provide a timely procedure to address individual producer rate reconsideration for 1991. However, we plan to address this weakness.

Question: Iowa is by far the largest user of crop insurance and is among the best states in loss experience, and has some of the highest farmer participation. The program appears to be working there very close to the legislative intent of the statute. In the private sector, this class of business would be handled very carefully and cautiously. Why did FCIC impose rate increases that are causing many farmers to abandon the program?

Answer: The crop insurance experience data of Iowa farmers indicated that rate increases for some crops and counties were required for an actuarially sound Federal Crop Insurance program. Rates for many Iowa crops have not been increased for a number of years. Some Iowa crops and counties had rate decreases for 1991.

Question: Of the major state summaries for major crops that you provide for 1991 rating changes, Iowa corn received the third highest rate increase of any state but has the fifth best loss ratio. Please explain how this rate increase can be justified.

Answer: The following table illustrates the loss ratios and other indicators based on the period 1969 through 1988. FCIC analysis shows that Iowa has the worst experience of the five states.

The loss cost ratio indicates the premium rate that would have resulted in a break even situation for the 20 years previous. The earned premium rate is the premium rate actually earned. FCIC is required to set premium rates to cover expected losses plus accumulate a reasonable reserve. Thus the earned premium rate should be greater than the loss cost ratio. This is the reason that the state target rate exceeds loss cost ratio. The target rate for corn in Iowa is about 39 percent higher than the average earned premium rate for the period.

After all adjustments, the indicated premium rate for corn in Iowa in 1991 averages about 9 percent more than the rate in 1990. Rates in some counties decreased while rates in other counties increased. FCIC will move rates toward the targets during the next several years. The targets may change as the experience for the crop changes during that time.

CORN EXPERIENCE (1969-1988)

STATE	LOSS RATIO	LOSS COST RATIO	EARNED PREMIUM RATE	STATE TARGET RATE	PERCENT CHANGE
IOWA	1.21	5.02	4.23	5.89	39.2
NEBRASKA	0.85	4.76	5.59	5.60	0.1
SOUTH DAKOTA	0.92	8.2	8.91	9.65	8.3
NORTH DAKOTA	1.01	10.95	12.59	12.88	2.3
MINNESOTA	0.79	4.79	6.34	5.63	-11.2

Question: Mr. Cason, in the December 17th bulletin, you note that FCIC "will utilize an outside contractor....to evaluate the organizational requirements of FCIC to deliver the program efficiently and effectively....". What is the status of this effort?

Answer: FCIC is expecting a final report from its contractor, KPMG Peat Marwick, by May 1, 1991.

Question: I'd like to talk just a moment about the future of this program. Congress passed crop insurance amendments in 1990, and I don't really expect any legislative "fixes" in the near future. The Administration supports funding of the program this year, and I haven't heard you really pushing the proposal to cut the subsidy level. In the past, there has been some discussion of turning FCIC into more of a pure regulator and reinsurer. Does FCIC, or USDA have a long range goal for the federal crop insurance program? What is to be the role of the private companies and what is to be the role of the government?

Answer: The long range goal of FCIC is to deliver affordable, attractive crop insurance protection to farmers in an efficient, cost effective manner. We are acting to improve communication between FCIC and the farmers we serve, to ensure the coverage we offer meets their financial needs. We will work closely with private sector companies and agents, as well as other government agencies, to make sure farmers are provided to quality service. Finally, we will review all aspects of the program to ensure taxpayer funds are protected and used wisely.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CROP PROGRAM CHANGES

Question: In the last few years FCIC has not had a viable soybean program to offer farmers in the southeast section of this country. What plans do you have to provide a program for those soybean growers in 1992?

Answer: FCIC has funded a Cooperative Extension Service study of soybean crop insurance in seven southeastern states including Mississippi. This study includes farmer surveys and development of alternative soybean policy provisions. A county/area loss concept similar to that authorized under the Food, Agriculture, Conservation, and Trade Act of 1990 will be considered. The results of this study will enable FCIC to determine needed changes to the existing program as well as examine alternative program provisions which may provide soybean growers with a more viable risk management program. We will make changes for 1992 if feasible, but 1993 is a more realistic target for major changes.

Question: What crop program changes are you expecting to make in 1992?

Answer: We do not anticipate any major crop program changes for the 1992 crop year that will result in issuance of new policy terms and conditions. We continue to evaluate and respond to requests for minor changes in dates, changes mandated by the Food, Agriculture, Conservation, and Trade Act of 1990, and changes which result from analysis of experience. As an example, we propose to add the winter wheat coverage option to 24 counties (14 counties in the state of Washington and 10 counties in the state of Idaho).

CROP INSURANCE PROJECTIONS

Question: What projections can be made at this point on the 1991 book premium underwritten by the government?

Answer: Currently, we are projecting our 1991 book premium to be $886 million.

Question: What is the projected percent of participation on potential insured acres?

Answer: We are projecting 38 percent participation on the potential insurable acreage for 1991.

Question: What potential dollar amount may go out in indemnities to farmers experiencing harsh weather?

Answer: The budget for crop year 1991, projects indemnities to be $1.240 billion. Historically, slightly more than half of all losses are attributed to drought, with the remainder attributed to a wide variety of causes. These include excessive moisture, frost/freeze, excessive heat, windstorm, hail, and others.

RURAL ELECTRIFICATION ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

RETURN TO THE MISSION

Question: Mr. Byrne, I am very disappointed in your budget for REA. Year after year, the same budget is proposed to cut the program.

I have received your recent publication "Return to the Mission." It strikes me as pure propaganda to support your attempts to eliminate REA. First of all, I would like to have a few specifics about the report. How much did it cost to produce this document?

Answer: The document cost $933.

Question: How many copies did you make?

Answer: The agency printed 2,000 copies.

Question: To whom was it distributed?

Answer: The agency made 535 copies available to members of Congress. For information purposes, 520 were made available to REA employees. The balance is being distributed upon request to individuals or groups who desire information on the Administration's budget proposals. Many members of Congress have been provided additional copies. There are and have been no plans for "mass" distribution other than mentioned.

Question: Your explanation of the President's budget is to be contained in your explanatory notes. What is the purpose of this additional document?

Answer: REA believes that it has a responsibility to adequately inform the Congress and other interested parties relative to critical issues. In offering approaches in dealing with such issues, Return to the Mission is designed to make recommendations for the future administration of REA programs.

LOAN LEVELS

Question: For this year, in regard to REA, the Budget Reconciliation Act is controlling. It also purports to set loan levels through 1995 even though credit reform legislation says subsidies need to be appropriated. If there are no appropriations provisions for REA loans, what loan levels will be made available in 1992?

Answer: If there are no appropriation provisions for REA, the Fiscal Year 1992 loan levels mandated in the Omnibus Budget Reconciliation Act of 1990 will be available. Since spending for these loan levels was determined to be mandatory under Credit Reform guidelines, subsidies to fund these loan levels are available without appropriation action.

RURAL ECONOMIC DEVELOPMENT

Question: What actions have you taken to implement Congress's recommendations for activities related to rural economic development?

Answer: The Agency is proceeding with the establishment of the position of the Assistant Administrator for Economic Development (AAED). In addition, the existing Rural Development Staff in REA has been expanded by five positions. One of these positions has been filled and recruiting efforts to fill the remaining four positions are underway. This unit will report to the AAED and perform the responsibilities of the technical assistance unit called for in Title XXIII of the Farm Bill.

Regulations are being prepared to implement the Section 12 deferment program for economic development that is provided for in Section 2344 of the Farm Bill. The proposed regulation should be published in May 1991.

Three programs, the Water and Waste Facility Loan program, the Distance Learning and Medical Link Grant program, and the Rural Business Incubator Fund program were authorized in the Farm Bill. Although no funding was provided in fiscal year 1991 for any of them, regulations are being prepared for these programs.

Question: How are you spending the $500,000 appropriated to provide community and economic development technical assistance to rural electric and telephone systems?

Answer: As of March 31, 1991, REA has spent $128,869 in providing community and economic development assistance to rural electric and telephone systems. This assistance has taken the form of providing information to borrowers on REA programs, processing of funding applications for rural economic development loans and grants and responding to specific requests for information. REA has scheduled two rural development conferences for later this fiscal year. One is to be held June 4-5 in Oklahoma City, Oklahoma, and the second will be held on August 22-23 in Raleigh, North Carolina. Invitations have been sent to all electric and telephone borrowers encouraging their attendance. Fully staffing the Rural Development Assistance Unit will also use a portion of the $500,000.

Question: Who is REA's rural development coordinator?

Answer: Mark B. Wyatt is REA's rural development coordinator.

Question: Please provide a list of recipients for the Rural Development Subaccount loans and grants for 1990 and 1991 showing the name of the borrower, a brief description of the project, the amount of the application, the date the application was submitted to REA, the date it was approved by REA, the date funds were advanced by REA, and an explanation of the reasons for failure to advance funds for each loan in cases where funds have not been advanced within 60 days of loan approval.

Answer: [The information follows:]

Rural Economic Development Loan and Grant Program
Status Report
Electric Program

Applications Selected

Area: Northwest Area – Electric

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
MN 89 RED–1–L	$25,000	3/31/89	6/05/89	1/12/90	5/14/90
North Pine Electric Cooperative (Minn. 89) – $25,000 Loan • Electrical wiring for a tool & die company in a renovated building. Status: Fully advanced.					
MN 95 RED–1–L	$100,000	6/9/89	7/28/89		
North Star Electric Cooperative (Minn. 95) – $100,000 Loan • Supplemental financing to establish a particleboard manufacturing factory. Status: Cancelled.					
IA 92 RED–1–L	$100,000	4/10/89	9/25/89	1/26/90	
Iowa Lakes Electric Cooperative (Iowa 92) – $100,000 Loan • Building shell for commercial / industrial use on short–term notice. Status: REA borrower has not executed and returned the loan documents.					
ND 33 RED–1–L	$50,000	4/11/89	9/25/89	1/18/90	6/27/90
West Plains Electric Cooperative (North Dakota 33) – $50,000 Loan • Research to develop double loop heat pump and storage heat pump. Status: Fully advanced.					
ND 32 RED–1–L	$100,000	10/16/89	2/20/90	6/1/90	9/26/90
Oliver–Mercer Electric Cooperative, Inc. (ND 32) – $100,000 Loan • Start–up costs for a clay target manufacturing company. Status: Fully advanced.					
MN 92 RED–1–L	$100,000	12/12/89	4/11/90	6/29/90	11/23/90
Dairyland Electric Cooperative, Inc. (MN 92) – $100,000 Loan • Purchase and renovate a building for the expansion of a hydraulic equipment manufacturing plant. Status: Fully advanced.					
MT 2 RED–1–L	$100,000	1/22/90	4/11/90	6/26/90	
Sun River Electric Cooperative, Inc. (MT 2) – $100,000 Loan • Development of a health services cooperative demonstration project. Status: Borrower has requested cancellation. Project has experienced organizational problems.					
SD 7 RED–1–L	$100,000	1/15/90	4/11/90	6/25/90	
Lincoln–Union Electric Company (SD 7) – $100,000 Loan • Expansion of a meat processing plant. Status: Environmental requirements need to be satisfied.					
SD 43 RED–1–L	$100,000	12/23/89	4/13/90	6/29/90	3/1/91
East River Electric Power Cooperative, Inc. (SD 43) – $100,000 Loan • Recapitalize an existing loan revolving fund. Status: Fully advanced.					
IA 9 RED–1–L	$100,000	4/3/90	6/11/90	8/6/90	3/29/91
Eastern Iowa Light & Power Cooperative (IA 9) $100,000 Loan • Purchase a 30 acre industrial development site. Status: Fully advanced.					
MN 37 RED–1–L	$78,000	4/5/90	6/11/90	10/18/90	
Federated Rural Electric Association (MN 37) $78,000 Loan • Purchase a building that will be renovated & used as an insurance claims center. Status: Loan documents executed and returned to REA. Borrower needs to satisfy prerequisites to the advance of funds.					
ND 35 RED–1–L	$100,000	4/11/90	6/11/90	8/20/90	
Capital Electric Cooperative, Inc. (ND 35) $100,000 Loan • Construction of building for expansion of a health maintenance organization. Space will be used for data processing. Status: REA borrower has not executed and returned the loan documents.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
OR 21 RED-1-L	$100,000	3/9/90	5/11/90	8/16/90	3/20/91
Coos-Curry Electric Cooperative, Inc. (OR 21) $100,000 Loan * Expansion of the production facilities for Freeman Marine Equipment, Inc. Status: Fully advanced.					
ID 4 RED-1-L	$100,000	6/14/90	8/10/90	1/31/91	
Northern Lights, Inc. (ID 4) $100,000 Loan * Build a fire station and purchase equipment. Status: REA borrower has not executed and returned the loan documents.					
IA 26 RED-1-L	$100,000	6/14/90	8/10/90	2/26/90	
Nishnabotna Valley Rural Electric Cooperative (IA 26) $100,000 Loan * Construction of a speculative building at an industrial site. Status: REA borrower has not executed and returned the loan documents.					
MN 104 RED-1-L	$100,000	6/13/90	8/10/90	10/29/90	
Arrowhead Electric Cooperative, Inc. (MN 104) $100,000 Loan * Expansion of a lumber and sawmill business. Status: Loan documents executed and returned to REA. Borrower needs to satisfy prerequisites to the advance of funds.					
MN 79 RED-1-L	$100,000	8/12/90	9/28/90	3/14/91	
Agralite Cooperative (MN 79) $100,000 Loan * Expansion of the production facilities of a conveyor and idler manufacturer. Status: Loan documents executed and returned to REA. Borrower needs to satisfy prerequisites to the advance of funds.					
MN 81 RED-1-L	$65,000	5/21/90	9/28/90	1/3/91	
Mille Lacs Electric Cooperative (MN 81) $65,000 Loan * Expansion of the facilities for company that will manufacture rollers and frames for shredders. Status: Loan documents executed and returned to REA. Borrower needs to satisfy prerequisites to the advance of funds.					
ND 11 RED-1-L	$100,000	6/14/90	9/28/90	12/14/90	
Cass County Electric Cooperative, Inc. (ND 11) $100,000 Loan * Complete the renovation of the building used by a business incubator recently established in Fargo, N.D. Status: Loan documents executed and returned to REA. Borrower needs to satisfy prerequisites to the advance of funds.					
MN 61 RED-1-L	$100,000	8/20/90	12/20/90		
Freeborn-Mower Electric Cooperative (MN 61) $100,000 Loan * Construct a business incubator. Status: Cancelled.					
ND 8 RED-1-L	$75,000	10/12/90	12/20/90		
Baker Electric Cooperative, Inc. (ND 8) $75,000 Loan * Expansion by a manufacturing firm into a new product line. Status: In the process of preparing loan documents.					
ND 19 RED-2-L	$14,000	4/10/90	12/20/90	4/3/91	
Nodak Rural Electric Cooperative, Inc. (ND 19) $14,000 Loan * Expansion of a cabinet maker. Status: REA borrower has not executed and returned the loan documents.					
ND 19 RED-1-L	$25,000	10/12/90	12/20/90		
Nodak Rural Electric Cooperative, Inc. (ND 19) $25,000 Loan * Construct a resort and provide camping facilities at Devils Lake, ND. Status: Loan documents have been prepared and are in the process of being executed by REA.					
MN 101 RED-1-L	$100,000	11/15/90	2/13/91		
Clearwater Polk Electric Cooperative, Inc. (MN 101) $100,000 Loan * Building renovation and equipment costs for a new livestock feed manufacturing plant. Status: In the process of preparing loan documents.					
SD 3 RED-1-L	$100,000	12/3/90	2/13/91		
Clay Union Electric Cooperative, Inc. (SD 3) $100,000 Loan * Expansion of a nursing home. Status: In the process of preparing loan documents.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
MN 85 RED–1–L	$100,000	12/10/90	4/10/91		
Todd–Wadena Electric Cooperative (MN 85) $100,000 Loan • Expansion and renovation of a hospital and nursing home. Status: In the process of preparing loan documents.					
MT 10 RED–1–L	$50,000	2/4/91	4/10/91		
Vigilante Electric Cooperative, Inc. (MT 10) $50,000 Loan • Equipment for converting a non–operational alcohol plant into a waxy barley processing plant. Status: In the process of preparing loan documents.					
ND 25 RED–1–L	$20,000	10/15/90	4/10/91		
Mor–Gran–Sou Electric Cooperative, Inc. (ND 25) $20,000 Loan • Expansion of a western leatherworks business. Status: In the process of preparing loan documents.					
ND 28 RED–1–L	$100,000	6/11/90	4/10/91		
Williams Electric Cooperative, Inc. (ND 28) $100,000 Loan • Construction of greenhouses and equipment for a business that grows tomatoes and other produce. Status: In the process of preparing loan documents.					

Area: Southeast Area – Electric

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
NC 51 RED–1–L	$50,000	4/14/89	5/2/89	4/9/90	9/10/90
Lumbee River Electric Membership Corporation (NC 51) – $50,000 Loan • Partial funding for the addition of a production line at a factory. Status: Fully advanced.					
TN 35 RED–1–L	$100,000	3/30/89	5/2/89	2/7/90	
Sequachee Valley Electric Cooperative (TN 35) – $100,000 Loan • Establish a cutlery factory. Status: REA borrower has not executed and returned the loan documents.					
NC 40 RED–1–L	$100,000	4/14/89	6/5/89	4/9/90	9/10/90
Brunswick Electric Membership Corporation (NC 40) – $100,000 Loan • Non–profit business incubator to encourage business formation. Status: Fully advanced.					
TN 1 RED–1–L	$100,000	3/2/89	6/5/89	2/5/90	7/16/90
Volunteer Electric Cooperative (TN 1) – $100,000 Loan • Industrial development park. Status: Fully advanced.					
LA 9 RED–1–L	$63,800	6/12/89	7/28/89	2/5/90	9/20/90
Southwest Louisiana Electric Membership Corporation (LA 9) – $63,800 Loan • Development costs for establishing a business incubator. Status: Fully advanced.					
MO 55 RED–1–L	$20,000	5/22/89	7/28/89		
Sac Osage Electric Cooperative (MO 55) – $20,000 Loan • Expand a canopy door manufacturing factory. Status: Cancelled.					
NC 23 RED–1–L	$100,000	4/10/89	7/28/89	3/1/90	5/18/90
Blue Ridge Electric Membership Corporation (NC 23) – $100,000 Loan • Non–profit incubator to encourage new business formation. Status: Fully advanced.					
TN 1 RED–2–L	$30,000	6/14/89	7/28/89	5/8/90	
Volunteer Electric Cooperative (TN 1) – $30,000 Loan • Business incubator. Status: Cancelled					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
TN 9 RED–1–L	$100,000	6/2/89	7/28/89	2/7/90	
Tri–County Electric Membership Corporation (TN 9) – $100,000 Loan • Construct a building in an industrial park. Status: Cancelled					
MS 45 RED–1–L	$100,000	6/12/89	9/25/89	2/1/90	
East Mississippi Electric Power Association (Miss 45) – $100,000 Loan • Rural industrial incubator in Kemper County. Status: REA borrower has not executed and returned the loan documents.					
SC 26 RED–1–L	$100,000	8/1/89	9/25/89	4/9/90	
Pee Dee Electric Cooperative (South Carolina 26) – $100,000 Loan • Construct a package sewer treatment facility and lines. Status: Documents have been returned. Release is in process.					
TN 35 RED–2–L	$50,000	4/14/89	9/25/89	1/22/90	2/19/91
Sequachee Valley Electric Cooperative (Tenn 35) – $100,000 Loan • Industrial buildings in Bledsoe and Grundy Counties. Status: Fully advanced. (Loan reduced from $100,000 to $50,000.)					
SC 33 RED–1–L	$95,000	7/5/89	12/1/89	2/20/90	
Broad River Electric Cooperative (SC 33) – $95,000 Loan • Water and sewer expansion project for proposed truck plaza. Status: REA borrower has not executed and returned the loan documents.					
NC 51 RED–2–L	$75,000	6/14/89	2/20/90	3/18/91	
Lumbee River Electric Membership Corporation (NC 51) – $75,000 Loan • To construct a model demonstration turkey farm. Status: REA borrower has not executed and returned the loan documents.					
TN 1 RED–3–L	$100,000	4/14/89	2/20/90	5/10/90	
Volunteer Electric Cooperative (TN 1) – $100,000 Loan • Industrial building in Appalachian county; Meigs County, TN. Status: Documents have been returned. Release is in process.					
TN 9 RED–2–L	$100,000	12/11/89	2/20/90	3/1/90	9/24/90
Tri–County Electric Membership Corporation (TN 9) – $100,000 Loan • To purchase a building for a plastic injection molding plant. Status: Fully advanced.					
MS 40 RED–1–L	$100,000	1/29/90	4/11/90	6/29/90 4/2/91	
Southern Pine Electric Power Association (MS 40) – $100,000 Loan • Construction of a building in an industrial park. Status: REA borrower has not executed and returned the loan documents.					
MO 56 RED–1–L	$100,000	12/12/89	4/11/90	6/27/90	
North Central Missouri Electric Cooperative, Inc. (MO 56) – $100,000 Loan • Establish a hydraulic equipment manufacturing company. Status: Documents have been returned. Release is in process.					
TN 1 RED–4–L	$45,000	6/13/89	4/11/90	6/26/90	3/14/91
Volunteer Electric Cooperative (TN 1) – $45,000 Loan • Establish a business that will recycle glass, plastics, paper and metals. Status: Fully advanced.					
AL 18 RED–1–L	$100,000	11/6/89	6/8/90	9/8/90	
Cullman Electric Cooperative (AL 18) $100,000 Loan • Expansion of a manufacturer of ventilation, heating, etc., for poultry, hog, and greenhouses. Status: Documents have been returned. Release is in process.					
TN 9 RED–3–L	$100,000	9/18/89	6/14/90	9/13/90	
Tri–County Electric Membership Corporation (TN 9) $100,000 Loan • Purchase manufacturing equipment for shirt company. Status: REA borrower has not executed and returned the loan documents.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
TN 49 RED-1-L	$100,000	2/13/90	6/11/90	10/15/90	
Chickasaw Electric Cooperative (TN 49) $100,000 Loan * To construct an industrial building. Status: REA borrower has not executed and returned the loan documents. Need to prepare lien accommodation for TVA loan.					
AR 26 RED-1-L	$100,000	6/6/90	8/10/90	9/18/90	
North Arkansas Electric Cooperative, Inc. (AR 26) $100,000 Loan * Complete a speculative building and make other improvements in an industrial park. Status: REA borrower has not executed and returned the loan documents.					
FL 17 RED-1-L	$100,000	6/14/90	8/10/90	9/27/90	
West Florida Electric Cooperative Association, Inc. (FL 17) $100,000 Loan * Purchase land for the location of a state prison. Status: REA borrower has not executed and returned the loan documents.					
NC 66 RED-1-L	$100,000	6/12/90	8/10/90	11/2/90	4/4/91
Albemarle Electric Membership Corporation (NC 66) $100,000 Loan * Purchasing computer equipment, shop fixtures, furniture, paving a parking lot, etc. for the Watermark Association of Artisans. Status: Fully advanced.					
MS 29 RED-1-L	$100,000	8/6/90	9/28/90	1/11/91	
4-County Electric Power Association (MS 29) $100,000 Loan * Modify and clean up a wood treatment facility to meet environmental requirements. Status: REA borrower has not executed and returned the loan documents.					
MS 36 RED-1-L	$100,000	8/14/90	9/28/90		
Pearl River Valley Electric Power Association (MS 36) $100,000 Loan * Construction of an industrial building which will be used as a distribution and office facility. Status: Cancelled.					
MS 39 RED-1-L	$100,000	8/1/90	9/28/90	1/11/91	
Singing River Electric Power Association (MS 39) $100,000 Loan * Construction of an industrial building that will be used as a furniture manufacturing facility. Status: REA borrower has not executed and returned the loan documents.					
TN 35 RED-3-L	$50,000	8/13/90	9/28/90	1/3/91	
Sequachee Valley Electric Cooperative (TN 35) $50,000 Loan * Construction of a speculative industrial building. Status: REA borrower has not executed and returned the loan documents.					
AL 18 RED-2-L	$100,000	8/24/90	12/20/90		
Cullman Electric Cooperative (AL 18) $100,000 Loan * Construct a manufacturing facility. Status: In the process of preparing loan documents.					
MS 41 RED-1-L	$100,000	9/27/90	12/20/90	3/21/91	
Magnolia Electric Power Association (MS 41) $100,000 Loan * Purchase a former school & convert part of it into a manufacturing facility and part into a business incubator. Status: REA borrower has not executed and returned the loan documents.					
TN 20 RED-1-L	$100,000	8/10/90	12/20/90	3/22/91	
Gibson County Electric Membership Corporation (TN 20) $100,000 Loan * Construct an industrial building. Status: REA borrower has not executed and returned the loan documents.					
MO 55 RED-2-L	$25,000	9/19/90	2/13/91		
Sac Osage Electric Cooperative, Inc. (MO 55) $25,000 Loan * Expansion of a manufacturer of wood trusses for residential and commercial construction. Status: In the process of preparing loan documents.					
MO 66 RED-1-L	$76,500	12/14/90	2/13/91		
Webster Electric Cooperative (MO 66) $76,500 Loan * Establishment of a parts distribution facility. Status: In the process of preparing loan documents.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
MS 30 RED–1–L	$100,000	11/15/90	2/13/91	4/12/91	
Dixie Electric Power Association (MS 30) $100,000 Loan • Expansion of a chemical formulation and blending operation. Status: REA borrower has not executed and returned the loan documents.					
MS 39 RED–2–L	$100,000	9/11/90	2/13/91	4/12/91	
Singing River Electric Power Corporation (MS 39) $100,000 Loan • Packaging facility for a striped bass aquaculture operation. Status: REA borrower has not executed and returned the loan documents.					
TN 35 RED–4–L	$100,000	10/15/90	2/13/91	4/10/91	
Sequachee Valley Electric Cooperative (TN 35) $100,000 Loan • Construction of an industrial building. Status: REA borrower has not executed and returned the loan documents.					
TN 37 RED–1–L	$100,000	12/4/90	2/13/91	4/8/91	
Holston Electric Cooperative, Inc. (TN 37) $100,000 Loan • Establish a distribution facility in an industrial park. Status: REA borrower has not executed and returned the loan documents.					
AR 24 RED–1–L	$100,000	1/30/91	4/10/91		
Ozarks Electric Cooperative Corporation (AR 24) $100,000 Loan • Implement a garbage collection and disposal system for Adair County, Oklahoma. Status: In the process of preparing loan documents.					
SC 14 RED–1–L	$100,000	8/30/90	4/10/91		
Aiken Electric Cooperative, Inc. (SC 14) $100,000 Loan • Expansion of the water and sewer system to encourage industrial development. Status: In the process of preparing loan documents.					
TN 1 RED–5–L	$40,000	2/1/91	4/10/91		
Volunteer Electric Cooperative (TN 1) $40,000 Loan • Construction of a lumber drying kiln located in an industrial park. Status: In the process of preparing loan documents.					
TN 35 RED–5–L	$100,000	2/4/91	4/10/91		
Sequachee Valley Electric Cooperative (TN 35) $100,000 Loan • Purchase equipment for a manufacturer of electric and gas ranges. Status: In the process of preparing loan documents.					

Area: Northeast Area – Electric

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
MI 41 RED–1–L	$100,000	6/14/89	7/28/89		
Oceana Electric Cooperative (Mich. 41) – $100,000 Loan • Construct a filing cabinet manufacturing factory. Status: Cancelled by borrower.					
PA 4 RED–1–L	$16,200	6/13/89	7/28/89	12/8/90	2/20/90
The Northwestern Rural Electric Cooperative Assoc. (PA 4) – $16,200 Loan • Design and planning of a light industrial park. Status: Fully advanced.					
IN 42 RED–1–L	$100,000	8/7/89	9/25/89	9/25/90	
Parke County Rural Electric Membership Corporation (Indiana 42) – $100,000 Loan • Start–up costs for Diesel–Dynamics Manufacturing company. Status: Borrower must submit either an Indiana URC order putting the loan in the rate base or put $100,000 in an escrow account.					
PA 28 RED–1–L	$100,000	6/14/89	9/25/89	4/9/90	8/27/90
United Electric Cooperative (Penn 28) – $100,000 Loan • Crafts Production Incubator/Catalog Distribution Center. Status: Fully advanced.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
IL 45 RED–1–L	$100,000	7/5/89	2/20/90	6/1/90	
Clinton County Electric Cooperative, Inc. (IL 45) – $100,000 Loan • Site improvements for an industrial park. Status: REA borrower has not executed and returned the loan documents. Project may not be viable as proposed.					
MI 41 RED–1–L	$50,000	2/14/90	4/11/90	8/10/90	
Oceana Electric Cooperative (MI 41) – $50,000 Loan • Expansion of a hardwood sawmill. Status: Funds released but advance is on hold.					
OH 83 RED–1–L	$100,000	12/14/89	4/11/90		
Firelands Electric Cooperative, Inc. (OH 83) – $100,000 Loan • Construct a building for a company that will repair damaged aircraft parts and structural components. Status: Project may be cancelled by borrower.					
PA 28 RED–2–L	$100,000	2/14/90	4/11/90	7/13/90	3/6/91
United Electric Cooperative, Inc. (PA 28) – $100,000 Loan • Expansion of a wood furniture manufacturer. Status: Fully advanced.					
IL 18 RED–1–L	$75,000	4/2/90	6/11/90	10/19/90	
Illinois Rural Electric Company (IL 18) $75,000 Loan • Construct a correctional facility (minimum security work camp). Status: Documents have been returned. Processing release of funds.					
MI 42 RED–1–L	$100,000	4/12/90	6/11/90	8/30/90	2/28/91
The Western Michigan Electric Cooperative (MI 42) $100,000 Loan • Expansion of a fruit & vegetable storage, processing and marketing company. Status: Fully advanced.					
PA 21 RED–1–L	$100,000	4/12/90	6/11/90	8/ /90	
Somerset Rural Electric Cooperative, Inc. (PA 21) $100,000 Loan • Development of a business incubator. Status: REA borrower has not executed and returned the loan documents.					
WI 21 RED–1–L	$15,000	4/10/90	6/11/90	12/31/90	
Taylor County Electric Cooperative (WI 21) $15,000 Loan • Construction of a new firehouse. Status: Documents have been returned. Processing release of funds.					
KY 18 RED–1–L	$100,000	6/4/90	8/10/90	9/25/90	
Meade County Rural Electric Cooperative Corporation (KY 18) $100,000 Loan • Expansion of a business that manufactures office paper products. Status: REA borrower has not executed and returned the loan documents. Project delayed due to economy.					
VT 8 RED–1–L	$100,000	6/14/90	8/10/90	9/17/90	
Washington Electric Cooperative, Inc. (VT 8) $100,000 Loan • Establish a business incubator/community services center. Status: Documents were revised to change repayment terms. Borrower has not returned documents.				2/11/91	
WI 47 RED–1–L	$100,000	6/7/90	8/10/90	10/30/90	3/18/91
Jackson Electric Cooperative (WI 47) $100,000 Loan • Construct a business incubator building. Status: Fully advanced.					
NY 20 RED–1–L	$50,000	7/20/90	9/28/90	3/14/90	
Delaware County Electric Cooperative, Inc. (NY 20) $50,000 Loan • Construction of a building and purchase equipment to establish a specialized bakery. Status: REA borrower has not executed and returned the loan documents.					
VA 34 RED–1–L	$100,000	8/1/90	9/28/90	1/11/91	
Powell Valley Electric Cooperative (VA 34) $100,000 Loan • Construction of a facility to manufacture medical supplies. Status: REA borrower has not executed and returned the loan documents.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
WI 32 RED–1–L	$100,000	8/13/90	9/28/90	12/31/90	
Pierce–Pepin Electric Cooperative (WI 32) $100,000 Loan * Extension of a sewer system to a residential area. Status: Documents have been returned. Processing release of funds.					
OH 83 RED–2–L	$100,000	8/15/90	12/20/91		
Firelands Electric Cooperative, Inc. (OH 83) $100,000 Loan * Construct a building for a start–up manufacturer of ultrasonic detectors. Status: In the process of preparing loan documents.					
MI 41 RED–3–L	$100,000	2/14/90	2/13/91		
Oceana Electric Cooperative, Inc. (MI 41) $100,000 Loan * Expansion of a fruit and vegetable storage, processing and marketing company. Status: In the process of preparing loan documents.					
OH 68 RED–1–L	$100,000	12/13/90	2/13/91		
Tricounty Rural Electric Cooperative, Inc. (OH 68) $100,000 Loan * Establish a picture frame manufacturing facility. Status: In the process of preparing loan documents.					
PA 28 RED–3–L	$100,000	12/7/90 -	2/13/91	4/10/91	
United Electric Cooperative, Inc. (PA 28) $100,000 Loan * Establish a restaurant in a regional airport. Status: REA borrower has not executed and returned the loan documents.					
MI 40 RED–1–L	$100,000	10/4/90	4/10/91		
O & A Electric Cooperative, Inc. (MI 40) $100,000 Loan * Construct a waste water treatment plant and extend the water and sewage system for new commercial and industrial facilities in Newaygo, Michigan. Status: In the process of preparing loan documents.					
OH 83 RED–3–L	$100,000	1/10/91	4/10/91		
Firelands Electric Cooperative, Inc. (OH 83) $100,000 Loan * Construct a building and purchase equipment to expand a plastic molding business. Status: In the process of preparing loan documents.					
PA 21 RED–2–L	$100,000	2/13/91	4/10/91		
Somerset Rural Electric Cooperative, Inc. (PA 21) $100,000 Loan * Purchase equipment, supplies and finance other costs in connection with the start up of a fire equipment manufacturing business. Status: In the process of preparing loan documents.					
WI 40 RED–1–L	$100,000	2/7/91	4/10/91		
Barron Electric Cooperative (WI 40) $100,000 Loan * Construction of a building in an industrial park. Status: In the process of preparing loan documents.					

Area: Southwest Area – Electric

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
OK 20 RED–1–L	$50,000	4/14/89	12/1/89	2/26/90	
Northeast Oklahoma Electric Cooperative (OK 20) – $50,000 Loan * Water system for city of Lindsay. Status: Project is no longer viable as proposed.					
NM 11 RED–1–L	$45,000	2/14/90	2/20/90	6/7/90	
Kit Carson Electric Cooperative, Inc. (NM 11) – $45,000 Loan * Continued development and expansion of Taos County Business Incubator. Status: Borrower is working to resolve PSC denial based on state law. The borrower hopes to get the state law changed in early 1991.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
OK 20 RED–2–L	$100,000	11/30/89	2/20/90	6/20/90	2/19/91
Rural Electric Cooperative, Inc. (OK 20) – $100,000 Loan • To conduct feasibility studies and prepare a business plan for a solid waste management program to reduce landfill material. Status: Fully advanced.					
TX 75 RED–1–L	$100,000	2/14/90	4/11/90	6/19/90	
Wharton County Electric Cooperative, Inc. (TX 75) – $100,000 Loan • Continued development and expansion of an agricultural diversification program. Status: Loan documents executed and returned to REA. Borrower needs to obtain commitments for supplemental financing.					
CO 22 RED–1–L	$100,000	4/12/90	6/11/90	8/16/90	
Union Rural Electric Association, Inc. (CO 22) $100,000 Loan • Construct water and sewer lines for a new industrial park & retention and expansion of a plastics company. Status: REA borrower has not executed and returned the loan documents.					
TX 123 RED–1–L	$35,000	2/12/90	6/11/90	8/16/90	2/28/91
B–K Electric Cooperative, Inc. (TX 123) $35,000 Loan • Construction of the Baylor County Agri–Pavilion and Community Center Status: Fully advanced.					
CO 38 RED–1–L	$100,000	4/2/90	9/28/90	12/21/90	
Y–W Electric Association, Inc. (CO 38) $100,000 Loan • Study to determine the feasibility of locating a heavy aircraft maintenance facility at a county airport. Status: REA borrower has not executed and returned the loan documents.					

Status Report
Telephone Program

Applications Selected

Area: Northwest Area – Telephone

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
SD 533 RED–1–L	$100,000	4/14/89	5/2/89		
Cheyenne River Sioux Tribe Telephone Authority (SD 533) – $100,000 Loan • Building renovation, equipment & staff training to expand a printing business. Status: Tribal authority has not formed an entity to operate the project as proposed in its application.					
IA 656 RED–1–L	$70,000	6/12/89	7/28/89	4/24/90	
The Terril Telephone Company (Iowa 656) – $70,000 Loan • Establish a plastic injection molding factory. Status: Cancelled.					
ID 512 RED–1–L	$100,000	10/4/89	12/1/89	3/16/90	
Cambridge Telephone Company (ID 512) – $100,000 Loan • Expansion of alfalfa hay and wood pelleting operation. Status: Will be cancelled. Borrower has decided not to take the REA loan.					
IA 608 RED–1–L	$30,000	10/2/89	12/6/89		
River Valley Telephone Cooperative (IA 608) – $30,000 Loan • Start–up of a manufacturing operation to produce roll–out metal beds for mini–vans. Status: Cancelled on 7/5/90. Proposed ultimate recipient received a better offer from another town.					
MT 517 RED–1–L	$50,000	6/12/89	12/6/89	4/18/90	2/4/91
Blackfoot Telephone Cooperative (MT 517) – $50,000 Loan • Senior citizens' center for community of Seeley Lake. Status: Fully advanced.					
IA 503 RED–1–L	$100,000	10/10/89	2/20/90	10/24/90	
Mutual Telephone Company (IA 503) – $100,000 Loan • Site acquisition and preparation for the redevelopment of a downtown business district. Status: Funds released. REA borrower has not requested the loan funds. (Project required substantial environmental action.)					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
IA 634 RED–1–L	$100,000	12/14/89	2/20/90	7/5/90	11/22/90
Hospers Telephone Exchange, Inc. (IA 634) – $100,000 Loan * Expansion of a company that will manufacture plastic tanks for farm use. Status: Fully advanced.					
MN 562 RED–1–L	$75,000	12/14/89	2/20/90	8/6/90	9/7/90
Federated Telephone Cooperative (MN 562) – $75,000 Loan * For a warehouse and equipment to establish a seed cleaning facility at a farm elevator. Status: Fully advanced.					
MT 517 RED–2–L	$50,000	2/12/90	4/11/90 (revision)	7/30/90 10/11/90	
Blackfoot Telephone Cooperative, Inc. (MT 517) – $50,000 Loan * Senior citizens center. Status: REA borrower has not executed and returned the loan documents.					
IA 578 RED–1–L	$100,000	4/10/90	8/11/90	10/16/90	
Heart of Iowa Cooperative (IA 578) $100,000 Loan * Construction of a wastewater treatment facility for City of Laurel, Iowa. Status: Funds released. Funds will be advanced shortly.					
IA 643 RED–1–L	$37,000	4/6/90	8/11/90	8/20/90	
Ayrshire Farmer's Mutual Telephone Company (IA 643) $37,000 Loan * Construct a new well water source for the City of Ayrshire, Iowa. Status: Documents returned. REA is in the process of releasing loan funds.					
WY 515 RED–1–L	$35,000	4/13/90	8/11/90		
Dubois Telephone Exchange (WY 515) $35,000 Loan * Construct a glove manufacturing facility. Status: Cancelled.					
IA 578 RED–2–L	$84,000	4/10/90	8/10/90	10/16/90	
Heart of Iowa Telephone Cooperative (IA 578) $84,000 Loan * Waste water treatment and collection facility for the City of Ferguson, Iowa. Status: Release of funds signed. Funds will be advanced shortly.					
IA 578 RED–3–L	$84,000	4/13/90	8/10/90	10/16/90	
Heart of Iowa Telephone Cooperative (IA 578) $84,000 Loan * Waste water treatment and collection facility for the City of Haverhill, Iowa. Status: Release of funds signed. Funds will be advanced shortly.					
IA 613 RED–1–L	$100,000	6/14/90	8/10/90		
Panora Cooperative Telephone Association, Inc. (IA 613) $100,000 Loan * Construction of a facility to house a telemarketing business. Status: Loan documents have been prepared and are in the process of being executed by REA. Project required extensive environmental work.					
MN 562 RED–2–L	$30,000	6/19/90	8/10/90	9/17/90	2/19/91
Federated Telephone Cooperative (MN 562) $30,000 Loan * Establishing a typesetting business. Status: Fully advanced.					
MN 616 RED–1–L	$100,000	6/12/90	8/10/90	9/17/90	1/7/91
Blackduck Telephone Company (MN 616) $100,000 Loan * Expand a fire station. Status: Fully advanced.					
MN 616 RED–2–L	$100,000	6/12/90	9/28/90	12/13/90	2/25/91
Blackduck Telephone Company (MN 616) $100,000 Loan * Expansion of the manufacturing facility of Anderson Fabrics. Status: Fully advanced.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
AK 514 RED–1–L	$100,000	8/14/90	12/20/90		
Interior Telephone Company (AK 514) $100,000 Loan					
* Construct and develop a child care center.					
Status: Loan documents have been prepared and are in the process of being executed by REA.					
MN 562 RED–3–L	$100,000	6/19/90	12/20/90	2/1/91	
Federated Telephone Cooperative (MN 562) $100,000 Loan					
* Establish an interactive educational television system in two rural schools.					
Status: REA borrower has not executed and returned the loan documents.					
MN 564 RED–1–L	$100,000	10/10/90	12/20/90	2/1/91	
West Central Telephone Association (MN 564) $100,000 Loan					
* Provide water, sewer and street improvements to an industrial park.					
Status: Cancelled.					
SD 526 RED–1–L	$100,000	10/12/90	12/20/90		
Splitrock Telecom Cooperative, Inc. (SD 526) $100,000 Loan					
* Construct a water system for the rural town of Garretson, SD.					
Status: In the process of preparing loan documents.					
IA 636 RED–2–L	$80,000	12/14/90	2/13/91		
Ringsted Telephone Company (IA 636) $80,000 Loan					
* Expansion of a repair shop.					
Status: Loan documents have been prepared and are in the process of being executed by REA.					
MN 558 RED–1–L	$100,000	12/3/90	2/13/91	3/21/91	
Albany Mutual Telephone Association (MN 558) $100,000 Loan					
* Construction of a fire station.					
Status: REA borrower has not executed and returned the loan documents.					
MT 516 RED–1–L	$60,000	11/1/90	2/13/91		
Triangle Telephone Cooperative Association, Inc. (MT 516) $60,000 Loan					
* To purchase and develop the Lorna Earth Science Museum.					
Status: REA is in the process of obtaining information from the REA borrower necessary to prepare loan documents.					
IA 636 RED–2–L	$100,000	2/14/91	4/10/91		
Ringsted Telephone Company (IA 636) $100,000 Loan					
* Remodel and equip a medical building for doctors and a dentist.					
Status: In the process of preparing loan documents.					
MN 624 RED–1–L	$100,000	1/26/91	4/10/91		
Clara City Telephone Exchange Company (MN 624) $100,000 Loan					
* Developing and manufacturing a farm implement known as the invert–All.					
Status: In the process of preparing loan documents.					

Area: Southwest Area – Telephone

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
OK 550 RED–1–L	$70,000	4/13/89	5/2/89	5/10/90	
The Pine Telephone Company (OK 550) – $70,000 Loan					
* Construct a TV broadcast transmitter for classroom teaching of home bound students.					
Status: REA borrower has not executed and returned the loan documents.					
TX 569 RED–1–L	$15,000	12/13/89	2/20/90	6/26/90	
Dell Telephone Cooperative, Inc. (TX 569) – $15,000 Loan					
* Renovation of a community activity center.					
Status: Loan documents had to be returned to borrower to be corrected.					
OK 532 RED–1–L	$100,000	4/11/90	6/11/90	8/20/90	4/12/91
Chouteau Telephone Company (OK 532) $100,000 Loan					
* Expansion of a fish farm.					
Status: Fully advanced.					

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
CA 515 RED–1–L	$100,000	4/15/90	8/10/90	9/28/90	
Sierra Telephone Company, Inc. (CA 515) $100,000 Loan * Expand a newly constructed waste water treatment plant. Status: REA borrower has not executed and returned the loan documents.					
OK 530 RED–1–L	$100,000	4/11/90	9/28/90	1/29/91	
Panhandle Telephone Cooperative, Inc. (OK 530) $100,000 Loan * Purchase and install classroom video equipment for an interactive educational video system for rural schools located outside of the REA borrower's service area. Status: REA borrower has not executed and returned the loan documents.					
OK 558 RED–1–L	$100,000	7/13/90	9/28/90	1/29/91	
Canadian Valley Telephone Company (OK 558) $100,000 Loan * Initial phase of the development and construction of a waste water treatment facility for Crowder, Oklahoma. Status: REA borrower has not executed and returned the loan documents.					
NM 504 RED–1–L	$100,000	8/8/90	12/20/90		
E.N.M.R. Telephone Cooperative (NM 504) $100,000 Loan * Purchase classroom equipment necessary for an interactive educational television system in rural schools. Status: REA is awaiting information form the borrower necessary to prepare loan documents.					
KS 506 RED–1–L	$50,000	12/12/90	2/13/91		
Haviland Telephone Company, Inc. (KS 506) $50,000 Loan * Expansion of a farm equipment manufacturing plant. Status: Loan documents have been prepared and are in the process of being executed by REA.					

Area: Southeast Area – Telephone

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
MS 521 RED–1–L	$63,000	8/4/89	9/29/89	6/25/90	11/2/90
Fulton Telephone Company (Miss 521) – $75,000 Loan * To acquire & renovate a building to be the headquarters of the Itawamba County Development Council. Status: Fully advanced. (Loan reduced from $75,000 to $63,000)					
SC 502 RED–1–L	$100,000	10/11/89	2/20/90	6/30/90	10/15/90
Ridge Telephone Company, Inc. (SC 502) – $100,000 Loan * Acquisition and renovation of a building to house an organization that administers various economic and community development programs. Status: Fully advanced.					
MO 602 RED–1–L	$100,000	12/12/89	4/11/90	6/30/90	
Missouri Telephone Company (MO 602) – $100,000 Loan * Construct a discount store as part of a town revitalization project. Status: REA borrower has not executed and returned the loan documents.					
MO 602 RED–2–L	$100,000	10/10/90	12/20/90		
Missouri Telephone Company (MO 602) $100,000 Loan * Expansion of a gearbox manufacturer. Status: REA borrower has not executed and returned the loan documents.					

Area: Northeast Area -- Telephone

Borrower & Designation	Amount	Applic. Date	Date Selected	Approved (Docs. to Borrower)	Funds Advanced
KY 530 RED-1-L	$100,000	2/2/90	6/11/90	9/10/90	4/8/91
Duo County Telephone Cooperative Corporation, Inc. (KY 530) $100,000 Loan * Construct a motel. Status: Fully advanced.					
WI 580 RED-1-L	$100,000	6/12/90	8/10/90	1/11/91	
Baldwin Telecom, Inc. (WI 580) $100,000 Loan * Remodel and construct additional units at a nursing home. Status: REA borrower has not executed and returned the loan documents.					
MI 508 RED-- -L	$100,000	8/13/90	4/10/91		
Peninsula Telephone Company (MI 508) $100,000 Loan * Construction of a winery chateau (inn, winery and vineyard) in Grand Traverse County, Michigan. Status: In the process of preparing loan documents.					

RATIOS AND CRITERIA

Question: Your proposed rule would establish eight new ratios and criteria to determine the amount of a borrower's loan that would be funded by REA. Mr. Byrne, the agriculture appropriations act for fiscal year 1991 states that: ". . . as a condition of approval of insured electric loans . . . borrowers shall obtain concurrent supplemental financing in accordance with the applicable criteria and ratios in effect as of July 15, 1982." Please provide us with any written legal opinions allowing you to propose changing the ratios and criteria in violation of the appropriations act.

Answer: There are no written legal opinions on this matter. After a discussion with the Office of the General Counsel, REA concluded that there was no violation of the Appropriations Act because the rule proposes no changes in the ratios and criteria involved in establishing concurrent supplemental financing. For your information, a separate rule, which would codify the 1982 policy in this matter, has also been proposed.

BORROWER PREPAYMENTS

Question: Please provide a list of borrowers and the amounts of prepayments under each of the two authorities allowing for prepayments.

Answer: A list of borrowers and the amounts of prepayments will be provided for the record. [The information follows:]

RURAL ELECTRIFICATION ADMINISTRATION

Refinanced FFB Electric Loans
Fiscal Year 1988

State & Number	Borrower Name	Amount	Source of Funds
FY 1988 Actual			
IL 51	Western Illinois Power Co-op	281,969,556.09	Cooperative Finance Co.
KS 54	Kansas Electric Power Co-op	62,487,163.21	Cooperative Finance Co.
KY 62	Big Rivers Electric Co-op	319,426,094.98	Cooperative Finance Co.
LA 30	Cajun Electric Power Co-op	1,045,350,236.35	Jackson Bank for Co-ops
TX 157	Tex-La Electric Co-op of Texas	102,203,000.00	Cooperative Finance Co.
UT 21	Deseret Generation & Transmission	188,563,949.37	Cooperative Finance Co.
	Total, FY 1988	2,000,000,000.00	

RURAL ELECTRIFICATION ADMINISTRATION
TELEPHONE PROGRAM 19-Apr-91
Federal Financing Bank Prepayments

STATE & NUMBER	BORROWER NAME	AMOUNT	SOURCE OF FUNDS
Fiscal Year 1990			
MN 540	Runestone Tel. Assoc.	421,298.12	General Funds
TX 617	Sugar Land Tel. Co.	8,179,505.63	"
CA 515	Sierra Tel. Co., Inc.	2,752,965.11	"
AR 538	Alltel Arkansas, Inc.	2,153,052.22	"
AR 540	Boone County Tel. Co.	1,647,523.18	"
PA 518	Brookville Tel. Co.	4,374,830.77	"
PA 528	Murraysville Tel. Co.	241,096.54	"
FL 504	United Tel. Co. of FL.	1,491,846.72	"
PA 562	Contel of PA	6,241,669.12	"
KY 528	Contel of Kentucky	991,605.97	"
PA 551	Commonwealth Tel Co.	357,771.62	"
NJ 504	United Tel. NJ., Inc.	1,055,661.97	"
FL 502	St. Joseph Tel. & Telegr.	1,409,512.55	"
ME 524	Somerset Telephone Co.	120,821.37	"
MI 566	CC & S Telco, Inc.	928,877.99	"
AL 532	Elmore-Coosa Tel. Co.	619,150.70	"
FL 509	Alltel Florida, Inc.	13,754,026.36	"
SC 505	Alltel South Carolina	800,922.77	"
MS 503	Alltel Mississippi, Inc.	1,624,760.42	"
TN 501	Tennessee Tel. Co., Inc.	2,227,236.98	"
LA 501	East Ascension Tel. Co.	3,251,334.96	"
GA 555	Contel of the South	27,622,002.62	"
TX 640	Contel of Texas	5,203,415.71	"
AZ 505	Contel of the West	3,107,315.45	"
IA 556	Contel of Iowa	2,897,180.34	"
MN 526	Contel of Minnesota	2,074,859.81	"
AR 519	Contel of Arkansas	4,270,052.20	"
MO 580	Contel of Missouri	7,735,775.47	"
KS 554	Contel of Kansas	4,161,220.24	"

FL 506	Quincy Telephone Co.	612,989.37	"
GA 554	Alltel Georgia	1,935,014.53	"
NC 510	Alltel Carolina	3,485,105.46	"
		117,750,402.27	
Fiscal Year 1991			
WI 576	The United Tele. Co.	770,825.77	General Funds
AK 526	Tel Uti of the No.-land	10,575,998.51	"
WI 572	North-West Tel. Co.	3,179,600.67	"
AL 506	Gulf Telephone Co.	2,545,800.44	National Bank for Co-ops
	Actual - October 1 thru 29, 1990	17,072,225.39	

Note:
There is $15,177,372 remaining in telephone refinancing authority. The agency has reserved $350 million of the refinancing authority for troubled electric borrowers. REA has four applications for refinancing which would use approximately $250 million of the authority. The $350 million in refinancing should be completd by the end of 1991.

FTE's

Question: The appropriations acts have stipulated that full-time equivalent staff years for REA should not be below 550. Your monthly reports indicate that you are working with an authorized position level of 530. What is the discrepancy?

Answer: Congress established a staffing level floor of 550 for REA in the conference report accompanying the 1991 Appropriations Act. However, the 1991 Appropriation Act only provided funds sufficient to support 524 staff years. REA's current organizational chart has 530 permanent positions.

Question: What level of resources would be required to maintain a level of 550?

Answer: Based on current projections a total of $40,482,000 would be required to fund a staffing level of 550. This includes $1 million for the RETRF and $143 thousand for the RTB as required to be appropriated by the Federal Credit Reform Act of 1990.

Question: Furthermore, your explanatory notes indicate that the FTE level for 1991 is only 524 and will be 520 for 1992. Yet there is no explanation for the reduction--only explanations for the increase in salaries and expenses. Explain the discrepancy between the 524 and the 530 FTE's. Why do the FTE's decrease in 1992 without justification?

Answer: The 524 represents full-time equivalent employment while the 530 is the number of positions in the agency's most recent staffing pattern. Staffing patterns are typically higher in that they do not recognize the fact that there are always a few vacancies. Full-time equivalents represents the average payroll for a fiscal year. The 1992 request is based on the number of staff years required to administer the program proposals. A funding decrease of 4 staff years is relatively minor and since these positions are not currently filled, an explanation was not provided. Sufficient staffing exists for the timely processing of all loans.

LOAN BACKLOG

Question: What is the current backlog of insured loan applications at REA for the electric and telephone programs and how long does that mean an applicant under each program has to wait for a loan to be approved?

Answer: There were 193 insured electric applications totaling $824,189,208 on hand on April 9, 1991. We are currently processing the electric applications that were received in June 1990. Implementation of the proposed rule, "Borrower Eligibility for Different Types of Loans" will work to reduce the backlog.

In the telephone program, as of April 1, 1991, there were 61 loan applications totaling approximately $347.4 million. Based on applications received to date, the telephone program should have sufficient funds to process all completed loan applications received by June 30, 1991, if borrowers who qualify for loan guarantees elect to take a guaranteed loan in accordance with the 1990 Farm Bill.

Question: What can you do to reduce that backlog?

Answer: On January 24, 1991, REA issued in the Federal Register 7 CFR Part 1700 entitled Interpretation of Guaranteed Loan Policy. This interpretation permits distribution borrowers to request Section 306 loan guarantee financing for distribution and subtransmission purposes.

REA anticipates that the Federal Financing Bank would provide the bulk of the funding for this program. REA anticipates that these type of applications can be processed in 60 days or less. At this time, REA has received 7 applications totaling approximately $65 million under this program. One application has already been approved in the amount of $18,355,000 and other approvals will follow shortly. If sufficient distribution borrowers take advantage of this program, our insured backlog can be substantially reduced. Implementation of the proposed rule, "Borrower Eligibility for Different Types of Loans", along with rules governing the new Section 314 private-sector program will also work to reduce the backlog. The telephone program will not have a large backlog based on current requests.

RESTORING OBRA CUTS

Question: How much would need to be appropriated to restore the cuts made by OBRA to the electric and telephone program?

Answer: Restoring the insured electric and telephone loan programs to the 1991 appropriation levels would require $162 million for the electric program and $62 million for the telephone program. The Congress would also need to appropriate subsidy budget authority in order for REA to make loans under the Credit Reform Act.

CREDIT REFORM

Question: In very specific terms, what equation or formula was used to calculate the cost to the government of each of the REA electric and telephone loan programs?

Answer: Each cohort of loans, such as insured electric or RTB direct loans, was reviewed to determine the cash flow based on interest rates, fees, grace periods, term to maturity, disbursement schedule, and repayment schedule. An analysis of historical information, including deviations from the loan contract, late payments, and recoveries, was used when determining the estimated cash flow from the loan. After the estimated cash flow was determined, the projected receipts over the life of the loan were discounted by the Treasury borrowing rate to determine the subsidy.

Question: What subsidy rate will be used in the actual disbursement of REA loans? Will it be the rate published in the budget or some other calculation made at that time?

Answer: The estimated subsidy rate will be determined at the time loan obligations are made and will be held constant throughout the disbursement period. To the extent that rates differ at the time of disbursement from the time of obligation, indefinite budget authority for subsidies will be used to make up the shortfall. The subsidy rate published in the budget is based on an estimated Treasury interest rate furnished to credit agencies by OMB. When the loan is obligated, the subsidy will be recalculated with the Treasury interest rate in effect at that time.

Question: Who will make the calculation?

Answer: The Director of OMB has primary responsibility for subsidy estimates, but it is expected that the subsidy calculations will be delegated to each credit agency.

Question: For REA, you request a modified direct loan level of $493,700,000 and indicate that the subsidy level is negative 22.4 percent. What are these loans, and how will they be used.

Answer: Modified REA loans are restructurings of delinquent or troubled G&T loans. Under Federal Credit Reform, any change in the terms and conditions of a direct or guaranteed loan contract or any restructuring by the Government or lender is considered a modified loan. The loans included were projected to be modified at the time the budget was prepared. Negative subsidies do not require appropriation.

Question: Is your request for REA subsidies reduced by $110,589,000 as a result?

Answer: No, this amount represents an offsetting receipt to REA which will be outlayed to a Treasury receipt account.

Question: It is my understanding that this negative subsidy is really erroneous and that a positive subsidy is really

necessary. What is the estimated subsidy for these loans and on what is it based?

Answer: Based on a recent recalculation, the current estimate of subsidy needed for modified loans is $15,359,000. This is based on a loan level of $84,713,000 and an 18.3 percent subsidy rate. The change in loan level is based on the assumption that one loan would be modified instead of three. The subsidy rate is associated with that loan.

Question: Will you be submitting a budget amendment for that amount?

Answer: A final decision regarding an amendment to the 1992 President's Budget has not been made at this time.

TELEPHONE PROGRAM

Question: Mr. Byrne, I understand that you have not approved any loans in the telephone program since December of last year. Is that correct?

Answer: On the basis of legal advice, REA suspended telephone loan approvals on November 29, 1990, in order to implement the requirements of the 1990 Farm Bill.

Question: Do you acknowledge the responsibility imposed upon you by the Omnibus Budget Reconciliation Act of 1990 to meet the mandated levels for insured telephone loans for fiscal year 1991?

Answer: REA expects to process requests for insured telephone loans up to the mandated level imposed by the Omnibus Budget Reconciliation Act of 1990 (OBRA).

Question: Do you expect to fulfill this responsibility and make at least $186.5 million in insured telephone loans before the end of this fiscal year?

Answer: The agency expects to fulfill this responsibility by processing all requests received in a timely fashion up to the OBRA authorization of $186.5 million.

Question: What assurances can you give me that you will meet your responsibility under the agricultural appropriations act for 1991 to make at least $177 million in Rural Telephone Bank loans before the end of this fiscal year?

Answer: Although REA has suspended the approval of loans in the telephone program, we continue to perform all of the functions that lead up to loan approval. We expect to start loan approval as soon as the regulations needed to implement the 1990 Farm Bill are finalized and estimate that all of the $177 million available will be obligated.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

STAFFING

Question: REA is authorized 530 positions, but your February status report dated March 22, 1991, reflects your employment rate as 514. Is the request of $38 million for FY 1992 for salaries and expenses adequate to meet your authorized level of positions? Do you intend to fill the vacancies?

Answer: The $38 million request for Salaries and Expenses is adequate to fund the 520 positions that are proposed in the FY 1992 budget. Congress provided funding to staff 524 positions in FY 1991 and the agency is making every effort to reach that level of employment.

ENGINEERING AND STANDARDS NEEDS

Question: As you know, throughout the history of the REA programs, borrowers have relied heavily on the agency for information and technical assistance with regard to their engineering and standards needs. In recent years, the continuance of these services appears less and less likely. Do you remain committed to the provision on such services?

Answer: REA is committed to providing the technical assistance needed by our borrowers. During the past 4 months, both the electric and telephone programs have conducted three management and engineering seminars each to keep our borrowers and their consultants informed on the latest developments in technology and at REA. Approximately 2,100 cooperatives, telephone borrowers, and engineering consultants attended these seminars.

RURAL ECONOMIC DEVELOPMENT SUBACCOUNT

Question: For the past couple of years, Congress has provided funding ($5.0 million each year) for grants or zero-interest loans to REA borrowers to promote rural economic development and job creation projects. It is my understanding that REA has not yet awarded a grant under this program. Is that correct? If so, why not?

Answer: REA has not awarded any grants under the zero-interest loan and grant rural economic development program. The regulations that implemented the program specifically provide a preference for zero-interest rate loans. The rationale for this is that a zero-interest rate loan will result in a flow of principal payments back into the rural economic development subaccount which can then be reloaned thus creating a permanent revolving fund to foster development in rural areas. Additionally, the agency continues to receive more funding requests for loans than there are dollars available; and,

therefore, it is prudent management of the subaccount to make loans rather than grants.

LEGISLATIVE PROPOSAL

Question: The 1992 budget for REA proposes a number of legislative provisions. Has this legislation been submitted to Congress? If not, should we expect it yet this year?

Answer: The Rural Electrification Administration (REA) has not yet submitted a legislative package to Congress. This package is currently undergoing clearance. It is expected to be submitted shortly.

BACKLOG OF APPLICATION

Question: Last year, I raised some questions regarding REA's backlog of applications from borrowers. At that time, Mr. Byrne estimated the backlogs at about $550 million. What is the situation this year?

Answer: As of April 9, 1991, REA had approximately $824 million of insured applications on hand. At the end of Fiscal Year 1991, we estimate that insured applications at REA will total $900 million.

Question: Are you still only receiving nominal allocations from OMB?

Answer: We have authority to loan the amounts provided by the Omnibus Budget Reconciliation Act of 1990 and the 1991 Appropriation's Act for our various loan programs.

Private-sector loan guarantee authority provided by Section 314 is available but loans cannot be made until issuance of final implementing regulations.

Question: Are you obligating all of the amount made available?

Answer: REA will utilize all of our Fiscal Year 1991 insured loan authority of $485,453,000 for electric borrowers and $186,547,000 for telephone borrowers by September 30, 1991.

At this point, we cannot accurately predict the amount of FFB, Section 306 loans that will be approved this fiscal year. These applications are basically for generation and bulk transmission purposes and it is difficult to estimate when all necessary environmental activity, contractual requirements, etc., will be completed. To help with the insured electric backlog, this authority has recently been made available to distribution borrowers.

Included in our pending FFB loan applications is one application in excess of $500 million. At this time, we are not in a position

to know if processing will be completed this fiscal year. If it is approved, REA will use substantially all of its $813,450,000 electric FFB loan authority. If not, we estimate that we will use approximately $300 million of our Fiscal Year 1991 authority.

Section 314, private-sector loan guarantee authority in the amount of $224 million cannot be used until implementing regulations are finalized.

PROPOSED MEANS TEST

Question: How do you respond to the notion that this proposed rule "drastically changes or modifies" REA financing programs as they currently operate?

Answer: The proposed rule is a result of the Omnibus Budget Reconciliation Act of 1990 (OBRA). OBRA reduced REA's insured electric authority by 25 percent and established a new 90-percent private-sector guaranteed authority to be used as one option for borrowers whose request is reduced. REA was directed to implement the reductions in a "manner that lessens the adverse effect." Allocation of funds on the basis of need will lessen the adverse effect. Historically, REA has allocated insured funds on the basis of need. The general funds rule was a form of needs test, and the supplemental lending policy is an attempt to allocate insured funds on the basis of need. The major programmatic change resulting from OBRA is that REA now has a private sector risk-sharing guaranteed loan authority.

Question: Do you not feel that this action violates congressional intent and that Congress should be given an opportunity to hold hearings and comment?

Answer: OBRA, along with its managers' statement, is clear relative to the need to reduce individual loans and to provide a guarantee as one option for the difference. Other than directing REA to implement the reductions in a manner that will lessen the adverse effect, the statute is silent relative to a particular reduction methodology.

Question: The purpose of the REA telephone program under Section 201 of the Act is: "to furnish and improve telephone service in rural areas." Yet, you have stated that the job is finished because 96% of America's rural areas now have some kind of telephone service. Does this not ignore the second objective of "improving" telephone service in those areas?

Answer: REA is committed to providing both the financing and technical guidance needed by our borrowers to improve telephone service in Rural America.

Question: With the technological advances that have occurred in recent years in the telecommunications field, this purpose is particularly important today if we are to achieve

telecommunication's services in rural areas comparable to those in urban areas. While REA systems have a conversion rate to digital switches of 32 percent, an enviable record, 68 percent of the remaining switches are still analog and, therefore, cannot provide many of these new services; isn't that correct?

Answer: About 50 percent of all telephone loans are for digital switching, including remote switches and for fiber optics facilities. Our borrowers' conversion of analog switches to digital is greater than the 32 percent because many borrowers are replacing analog switches with digital remotes. REA did not keep statistics on analog switches that were replaced with digital remotes until 1989 so that our data does not reflect the true number of analog switches that have been replaced.

Question: Section 2352 of the 1990 Farm Bill recognized (1) that making modern telecommunications available in rural areas promotes economic development and (2) that the efficient operation of the REA telephone loan programs are essential to the continued development of the rural telecommunications infrastructure. Rural Americans should have access to modern telecommunications technology; wouldn't you agree? In fact, meaningful rural development cannot occur without it.

Answer: We agree that meaningful rural development cannot become a reality without modern telecommunications facilities. REA, under its existing authorities, will continue to work with its borrowers to develop modern telecommunications systems capable of meeting the requirements of all of the borrowers' subscribers.

Question: Given these facts, shouldn't we be doing something to improve rural telephone service? What percentage of your loans today are made for the purpose of <u>improving</u> telephone service?

Answer: Practically all loans approved by REA in the past several years are for improving telephone service. These improvements include upgrading service, stormproofing cable facilities and replacing switching facilities with digital host and remote offices.

QUESTIONS SUBMITTED BY SENATOR SPECTER

DIRECT LOAN PROGRAM

Question: REA electric distribution and telephone loans have a relative low level of delinquencies. I would have to commend REA on its efforts to manage its current $59.5 billion in financing provided to over 2,000 electric and telephone borrowers since the program's inception. Considering your level of success and that the rural electric cooperatives have been such reliable borrowers, why is there this continued attempt to eliminate the low-interest direct loan program?

Answer: The President's Budget does not eliminate low-interest funding. However, the Budget does recognize that the

program's success has yielded a class of borrowers who no longer need government subsidies. For these borrowers, private-sector loan guarantees are proposed. Additional amounts of low-interest funds are proposed as safety nets for electric and telephone borrowers who cannot afford market rates.

MEANS TEST

Question: Recently USDA proposed regulations to implement a "means test" for direct loans through the authority of the 1990 Budget Reconciliation Act which empowered REA to take necessary steps to lessen the adverse impact of the cuts in the loan levels. Since the authority for this regulation seems to be derived from the Act, do you agree that this means test would "sunset" after the Act expires in 5 years.

Answer: The proposed rule was silent on this issue. Several comments similar to yours were received during the rule's comment period. REA is evaluating these along with all others and will address them as we proceed to implement the rule.

Question: Given the Department's proposed regulation for the development of a "means test" for direct REA loans, would not such a "means test" inherently inhibit the long-range budgetary decision making of a rural electric cooperative? If so, isn't a means test adverse to the purpose of REA to provide electrical service to rural America?

Answer: As a practical matter, by blending the eight criteria, a borrower would have to experience substantial change in several areas in order to change significantly in their rank. To help insure against large swings, six of the criteria are based on 2-year averages. In order to help with long-range planning, the rule calls for a borrower's rank to be published annually even though they may not be applying for a loan. It is important to note that the level of credit authority per borrower is not in question. Full funding will still be available. A loan guarantee can be provided for any differences attributed to a reduction. The only item subject to change is the interest rate. Interest rate changes would occur regardless of the methodology used to implement the reductions.

Historically, it has been the practice of REA to allocate its funds on the basis of need. The general funds rule was a form of needs test, and the supplemental lending policy is an attempt to allocate insured funds based on need. Given this historical perspective, along with the new guaranteed authority and previous directions from Congress to encourage borrowers to use other resources, REA's rule is consistent with the objective of providing rural electric service.

Question: In your proposed regulation for the development of a "means test," how often will a rural cooperative be reviewed under the test, or would each loan application be subject to the test?

Answer: The rankings for all borrowers are published annually, and an individual loan would be based on the ranking at

the time of application. Applications are "locked in" for a period of 18 months.

STRAY VOLTAGE

Question: Recently there have been reports of financial damage to farmers, particularly milk producers, resulting from stray voltage. It is my understanding that stray voltage originates from utility lines that release electrical energy into the surrounding ground. Reports indicate that this electrical current may pass into the cow, causing discomfort and reduced milk production. Has REA investigated this matter of stray voltage and its affects on the farmer? If so, what form of remedies do you recommend to the rural utilities and farms that may suffer from stray voltage?

Answer: Because "stray voltage" is sometimes confused with "neutral to earth" voltage, it is important to have a common understanding of the terms. Neutral to earth voltage is the voltage measured from an electrical system neutral to a reference ground at remote earth potential. Neutral to earth voltage is always present on a multiple grounded electrical system, both primary distribution system and secondary farm electrical system. It is the result of electrical current flow. "Stray voltage" is a special case of electrical potential across animal contact points. One contact point is an object that is electrically connected to the system neutral and the other contact point is any other conductive object (floor, etc.) that the animal can simultaneously contact. These stray voltages are usually very low level voltages that cannot be felt by humans.

The level of stray voltage that any animal may be subjected to is dependent on the voltage difference between the two animal contact points and is dependent on both the electric system neutral potential and the degree of bonding (gradient control) at the particular location under consideration. REA has kept abreast of studies and papers on this subject and has these recommendations. We believe that all three of these recommendations should be followed.

1. The electric utility system should be well grounded, regularly inspected and adequately maintained. We recognize, however, that it is not possible to keep the system neutral to earth potential to the 1/2 to 1 volt level that is generally considered a desirable limit for stray voltage.

2. The farm wiring should be in compliance with state electrical codes, regularly inspected, and adequately maintained. Motors should be 240 volt soft start in lieu of 120 volt rating. We recognize that following both recommendations 1 and 2 will not assure that neutral to earth potential is as low as the desirable stray voltage level.

3. Since it is necessary to keep the stray voltage level below the level that can be maintained for neutral to earth potential, we believe it is necessary to limit the potential across animal contact points. This can be done with a system of gradient control usually referred to as an equipotential plane. All livestock containment facilities should, in our opinion, be constructed or retrofitted with an equipotential plane, including a transition plane or voltage ramp at access points to the plane. The equipotential plane is a grid system of conductors buried in the concrete floor and bonded to the electrical system neutral. The watering areas, feeder areas and milking parlor should all have equipotential planes.

SUBCOMMITTEE RECESS

Senator BURDICK. Thank you. Anybody else?

[No response.]

We will now be in recess.

[Whereupon, at 10:55 a.m., Tuesday, April 16, the subcommittee was recessed, to reconvene at 9:57 a.m., Friday, April 19.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

FRIDAY, APRIL 19, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:57 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Bumpers, Cochran, and Specter.

COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF DR. WENDY L. GRAMM, CHAIRMAN

ACCOMPANIED BY:

DR. EWEN WILSON, EXECUTIVE DIRECTOR
MADGE BOLINGER, BUDGET DIRECTOR

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we continue our hearing on the fiscal year 1992 budget for Agriculture, Rural Development, and Related Agencies. We will review the budgets for the subcommittee's related agencies: the Commodity Futures Trading Commission, the Food and Drug Administration, the Farm Credit Administration, and the Farm Credit System Assistance Board.

We will begin with the Commodity Futures Trading Commission. Welcome to our committee, Dr. Gramm.

In summary, CFTC proposes an increase in the budget from $43,960,000 for 1991 to $48,285,000 for 1992. We have your statement, Dr. Gramm. I would ask you to summarize it at this point and make any additional comments you would like.

Dr. GRAMM. Thank you, Mr. Chairman. I appreciate the opportunity to present to you the Commission's fiscal year 1992 budget request. Accompanying me today are Dr. Ewen Wilson, our Executive Director, and Ms. Madge Bolinger, Budget Director for the CFTC. I will be submitting my written testimony for the record, and I will briefly summarize it right now.

BUDGET REQUEST

The Commission is requesting a fiscal year 1992 budget of $48,285,000 and 621 staff-years. This represents an increase of 10

percent in funding and 26 additional staff-years over our fiscal year 1991 budget.

With this level of funding, the Commission feels it can effectively discharge its important mandate to properly regulate trading on the Nation's futures exchanges. The volume of futures and option contracts traded on the U.S. exchanges trebled during the last decade to more than 330 million contracts last year. Following on the tremendous success and growth of the U.S. markets, many foreign countries have now started their own exchanges. About 235 million contracts traded overseas last year compared with only a handful 10 years ago.

I cite these statistics, Mr. Chairman, to convey a better understanding of the tremendous global growth in futures and options and, consequently, the growing regulatory challenge we face in this country.

I believe that the budget we are requesting today will enable the Commission to conduct an effective regulatory program and preserve the price discovery and risk-shifting role of our futures and option markets for agriculture, financial, and other commodity users.

POSITIONS REQUESTED

The CFTC's budget request for fiscal year 1992 anticipates an additional 26 positions for the Commission to effectively regulate these growing, complex markets. Twelve staff-years for the Division of Trading and Markets are to enhance the Commission's contract market oversight. These include five staff-years to increase our presence on the exchange floors and to review exchange programs to deter and detect trade practice abuse; four for increased financial sales practice and managed account oversight; and three for legal support for market oversight programs, investigative activities, and report and regulation writing.

Six new staff-years are for the Division of Economic Analysis. Three of these will be devoted to market surveillance to keep pace with the ever-expanding number of actively trading contracts and volume increases for those contracts. The other three will be devoted to research in such areas as the impact of dual trading restrictions on market liquidity and quality of trade execution, adding delivery points to contracts which provide for physical delivery, and electronic trading systems.

Five staff-years are for the Division of Enforcement to conduct investigations and prosecutions, especially in the areas of solicitation fraud, exchange trading fraud, and international enforcement issues.

One position will go to Agency direction to support information sharing and dissemination responsibilities due to rapid growth and internationalization of the markets.

One position will go to administrative management to provide for an internal training position to create a more effective, efficient work force.

One position will go to legal counsel to provide timely expert legal advice and representation to the Commission.

In my written testimony, I have included Commission highlights for 1990, so I will dispense with that and go to the President's budget request for the CFTC, for which I would make two notes.

USER FEE

First, I would note that the President's fiscal year 1992 budget request contains two items that were not part of CFTC's submission. One of these is the imposition of a user fee of 13 cents on each round-turn futures and option transaction. This would generate an estimated $48 million in fiscal year 1992.

JURISDICTIONAL TRANSFER AND REAUTHORIZATION

I would like to note that last year the administration proposed a jurisdictional transfer of stock index futures to the SEC. The proposal has been superseded, however, by the administration's express support on April 11 for a jurisdictional compromise which does not reduce the CFTC's oversight responsibilities in the stock index futures area. As you know, of course, yesterday the CFTC's reauthorization package was passed by the Senate, so that earlier proposal is now moot.

Mr. Chairman, as you can see from the explanatory notes on our budget which we submitted to you on February 4, 1991, there are many challenges facing the CFTC today. I assure you that the Commissioners and the CFTC staff are dedicated to meeting these challenges, and, with your support and the support of this committee, I believe we have the resources to successfully fulfill our mandate under the Commodity Exchange Act.

Thank you very much. My staff and I will be pleased to answer any questions you may have.

PREPARED STATEMENT

Senator BURDICK. Thank you, Dr. Gramm. We have your statement. It will be made part of the record in full.

[The statement follows:]

STATEMENT OF DR. WENDY L. GRAMM

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to present to you the Commission's fiscal year 1992 budget request. Accompanying me today are Ewen Wilson, Executive Director, and Madge Bolinger, Budget Director for the CFTC.

CFTC'S BUDGET REQUEST

The Commission is requesting a fiscal year 1992 budget of $48,285,000 and 621 staff years. This represents an increase of 10 percent in funding and 26 additional staff years over our FY 1991 budget. With this level of funding, the Commission feels it can effectively discharge its important mandate to properly regulate trading on the nation's futures exchanges. The volume of futures and options contracts traded on U.S. exchanges trebled during the last decade to more than 330 million contracts last year. Following on the tremendous success and growth of the U.S. markets, many foreign countries have now started their own exchanges. About 235 million contracts traded overseas last year compared with only a handful ten years ago.

I cite these statistics, Mr. Chairman, to convey a better understanding of the tremendous global growth in futures and options, and consequently, the growing regulatory challenge which we face in this country. I believe that the budget we are requesting today will enable the Commission to conduct an effective regulatory pro-

gram, and preserve the price discovery and risk shifting role of our futures and options markets for agricultural, financial and other commodity users.

The CFTC's budget request for fiscal year 1992 anticipates an additional 26 positions for the Commission to effectively regulate these growing, complex markets. Twenty three of the twenty six positions will be devoted to direct program activities of the Commission. The detailed justifications for these requested positions follow:

Twelve staff-years for the Division of Trading and Markets are to enhance the Commission's contract market oversight. These include five staff-years for an increased presence on the exchange floors and to review exchange programs to deter and detect trade practice abuses, four for increased financial, sales practice and managed account oversight and three for legal support for market oversight programs, investigative activities and report and regulation writing.

Six new staff-years are for the Division of Economic Analysis. Three of these will be devoted to market surveillance to keep pace with the ever expanding number of contracts and trading volume increases. The other three will be devoted to research in such areas as the impact of dual trading restrictions on market liquidity and quality of trade execution, of adding delivery points to commodities where there is physical delivery and of electronic trading systems.

Five staff-years are for the Division of Enforcement to conduct investigations and prosecutions, especially in the areas of solicitation fraud, exchange trading fraud and international enforcement issues.

One position will go to Agency direction to support information sharing and dissemination responsibilities due to rapid growth and internationalization of the markets, one position will go to administrative management to provide for an internal training position to create a more effective, efficient work force, and one position will go to legal counsel to provide timely, expert legal advice and representation to the Commission.

HIGHLIGHTS OF 1990

The Commission has undertaken a number of important rule-making, enforcement and other regulatory activities during the past year. These are summarized below:

Dual Trading.—In January of 1990, the Commission proposed restrictions on the practice of dual trading, based in large part on the result of findings from a November 1989 CFTC study on dual trading and the joint CFTC–FBI investigation. The Commission's staff continues to analyze the more than three hundred public comments received, and expects to prepare a final rule in mid-1991. The proposed rule contemplates further analysis on the breadth of the dual trading definition and on the impact of the restrictions on low volume markets as well as more distant trading months.

Broker Associations.—As a result of its study of broker associations, the Commission in April 1990 issued a Notice of Proposed Rulemaking requiring the identification of broker associations and surveillance of their actions. Under the proposed rule, each exchange would be required to maintain rules with respect to affiliations defined by the Commission as broker associations. These rules would require registration and the filing of other identifying information. The Commission received nine comment letters and is in the process of drafting a final rule on broker associations.

Audit Trail.—The Commission adopted rules which became effective in May and June 1990 which are designed to reduce opportunities for the alteration of trading cards and other trading records. In addition, the Commission completed its previously initiated process of reviewing every exchange audit trail program and recommended enhancements of these systems to the exchanges. The Commission also approved an interpretation which reiterated that outtrades and other trades that do not clear must be monitored. The Commission also is studying the opening and closing periods of trading. That study will evaluate alternative procedures and their impact on the quality of execution of customer orders during these periods.

SRO Disciplinary Committees and Boards.—In March 1990, the Commission implemented rules barring for at least three years individuals sanctioned for serious disciplinary offenses from serving on any exchange disciplinary committee, arbitration panel, or governing board. The regulation defines disqualifying conduct to include serious violations of self-regulatory organizations' rules, of the Commodity Exchange Act, or of the Commission's regulations.

Oral Orders.—Since 1989, the Commission has encouraged all exchanges to implement improvements in record keeping for verbal orders. To date, most exchanges have changed their rules to require members who transmit orders to prepare a contemporaneous record of the transaction; the Commission expects all exchanges will

put similar rules into effect. These improvements should decrease any opportunities for abuse of such orders. At the conclusion of this process, the Commission will determine whether rulemaking in this area is appropriate and necessary.

Delivery Points.—Questions have been raised in recent years regarding the currently specified delivery points of several major grain and soybean futures contracts. The Commission and its staff have reviewed delivery point issues in the context of exchange rule changes for commodities such as frozen concentrated orange juice and coffee. Commission staff is currently conducting its own analysis of the adequacy of existing delivery provisions. In addition, the Commission is closely following several other studies of delivery points being conducted by academics and other groups, including the General Accounting Office.

Off-Exchange Issues.—Work continued in the area of off-exchange instruments. In January 1990, the Commission's Off-Exchange Task Force published an interpretative letter which provided safe harbor treatment for certain instruments known as "collar agreements" and dealt with numerous requests for no-action positions for hybrid instruments. The Commission issued an order enabling the Mexican government to issue and sell bonds with detachable oil recovery rights. The rights will permit holders to receive payments based on future increases in revenues derived from exports of Mexico's domestic oil production. These instruments are part of the plan to restructure the Mexican medium- and short-term debt. Similar type products issued by the government of Venezuela and Uruguay have also been approved by the Commission. The Commission also issued a statutory interpretation regarding the Brent oil market clarifying that 15-day Brent oil contracts were not subject to CFTC regulation.

Foreign Markets.—Throughout the fiscal year, the Commission worked with foreign regulators. In June, the Commission and the Commission des Operations de Bourse of France signed two agreements that provide a very comprehensive arrangement for information sharing and cooperation. The agreements provide for mutual assistance in enforcement matters, and mutual recognition of futures brokers located in each other's jurisdiction, and of their products. The Commission also continued its active participation in the International Organization of Securities Commissions (IOSCO), where it chaired the Working Party on Futures. This working party developed general principles to assist regulators and developers of screen-based trading systems. On November 15, 1990, the Commission approved these principles which were also adopted by IOSCO at its annual meeting in November 1990.

Market Activities Related to the Persian Gulf Crisis.—After the Iraqi invasion of Kuwait last summer, the crude oil markets experienced significant price volatility. As the likelihood of conflict increased, so did the concerns of the CFTC, the futures exchanges, the Department of Energy and other government agencies. The Commission staff and I spent considerable time helping to coordinate our activities with other federal agencies, and to plan for various contingencies particularly with the Department of Energy. In December 1990, we conveyed our concerns to all U.S. futures exchanges and encouraged them to make certain contingency plans to assure financial stability of the markets in the event of massive price moves. I am pleased to report that as a result of all of these efforts by government officials as well as exchange officials, all of the oil related futures and options markets performed their risk shifting and price discovery functions, and all financial and delivery obligations were met in a timely fashion. The Commission also paid close attention to the contingency plans of exchanges trading stock market indexes, which performed efficiently, as well.

Floor Surveillance.—I would like to highlight for the Committee the increased floor surveillance which the Commission has undertaken during the past 18 months and our plan for extending coverage to all the trading floors. In October of 1989, the Commission announced the formation of a staff task force to implement a comprehensive floor surveillance program and materially increase the CFTC's presence on all trading floors every day. I appreciate the assistance of this Committee in granting CFTC resources to carry out this floor surveillance program. This has enabled us to devote approximately 20 staff-years to floor surveillance activities including investigations and related activities that arise from this program. While our presence on the trading floors will not curb all trade practice abuse, we believe this program is a significant deterrent and assists us in pinpointing areas needing further investigation. We think our surveillance of the trading floor and follow-up activities add an important dimension to our overall regulatory program.

Joint CFTC/Justice Department Investigations and Trials.—In early 1989, Federal Grand Jury subpoenas were issued in Chicago as a result of a complex and sophisticated undercover investigation of trading activity on the Chicago Board of Trade and the Chicago Mercantile Exchange in the U.S. Treasury Bond, soybean,

Japanese Yen and Swiss Franc trading pits. This investigation was carried out jointly by the Department of Justice, the United States Attorney's Office in Chicago and the CFTC. On August 2, 1989, 46 individuals were indicted on charges stemming from alleged illegal floor trading practices, including fraud and abuse of customers orders. Two additional indictments, involving two individuals, were announced in November of 1989.

Thus far, 22 of the 48 indicted persons have entered guilty pleas. The first trial in the criminal actions began in May of 1990, with a CFTC investigator appearing as the government's first witness. The trial resulted in guilty verdicts on some charges against two of the three defendants, who subsequently entered guilty pleas pursuant to plea agreements. A new trial against the third defendant is scheduled for later this Spring. Two additional trials began in September 1990. In both of those cases, CFTC investigators again served as the lead prosecution witnesses. One of these trials concluded with guilty verdicts against all 10 defendants, and the second ended with not guilty verdicts on some counts and a hung jury on many of the other allegations. The United States Attorney has announced that he will seek a retrial of those defendants named in the counts for which the jury reached no verdict.

To date, 32 of the 48 individual defendants have pled guilty or been found guilty.

In addition to these activities, the Commission has continued to strengthen market and financial surveillance, enhanced investigatory activities and further monitored the exchanges' and the National Futures Association's compliance activities.

THE PRESIDENT'S BUDGET REQUEST FOR CFTC

Mr. Chairman, I also would note that the President's fiscal year 1992 budget request contains two items that were not part of CFTC's submission. One of these is the imposition of a user fee of 13¢ on each round turn futures and options transaction. This would generate an estimated $48 million in fiscal year 1992. The administration also proposed a jurisdictional transfer of stock index futures to the Securities and Exchange Commission. The proposal has been superseded, however, by the Administration's expressed support on April 11 for a jurisdictional compromise which does not reduce the CFTC's oversight responsibilities.

CONCLUSION

Mr. Chairman and members of the Committee, as you can tell from my testimony and the detailed explanatory notes of our budget which were submitted to you on February 4, 1991, there are many challenges facing the CFTC today. I assure you that the Commissioners and CFTC staff are dedicated to meeting these challenges. With your support Mr. Chairman, and the support of this Committee, I believe we have the resources to successfully fulfill our mandate under the Commodity Exchange Act.

Thank you Mr. Chairman. My staff and I would be pleased to answer any questions you and the other committee members may have about the CFTC.

JURISDICTION FOR CERTAIN STOCK HYBRID PRODUCTS

Senator BURDICK. Chairman Gramm, I may not be totally up to date on what the Senate did with the authorization bill on the floor in the last couple of days. However, since we do not know what the final product will be I would like to ask you a few questions hypothetically.

It is my understanding that jurisdiction for certain stock hybrid products at least in the bill as passed out of the Agriculture Committee will be transferred to the Securities and Exchange Commission.

Dr. GRAMM. In the proposal that was passed on the floor of the Senate, there was a section addressing hybrid products that have a component of a traditional futures or option and also a component of something else, such as a securities or a deposit instrument.

Under the jurisdictional package that was passed in the reauthorization bill yesterday, S. 207, the CFTC would have jurisdiction over those hybrid instruments that are more than 50 percent fu-

tures or options. So the SEC or some other agency would have jurisdiction over instruments that are mostly not a future or option.

Senator BURDICK. Tell us how this would affect your agency, then.

Dr. GRAMM. In terms of our agency, immediately upon the reauthorization bill being passed, we would write rules to implement that particular provision, but then beyond that it would be a self-executing provision for those firms that are producing and selling these hybrid products. We would maintain oversight and jurisdiction over those instruments that are at least 50 percent or more futures and options, and so we would do the same thing that we do now with respect to hybrid products which come under CFTC jurisdiction. We would be prepared to answer questions and otherwise monitor those products that are still within our jurisdiction.

Senator BURDICK. What budgetary savings would result, if any?

Dr. GRAMM. On that particular proposal, I do not see any budgetary savings. We would write rules, and we would monitor new products to ascertain whether they fall within our jurisdiction. We would not have to be concerned about products that are found to be outside our jurisdiction.

Senator BURDICK. Another provision of the bill would transfer some regulation of stock index futures to the FED. How will this affect the CFTC? Would there be savings in CFTC's budget for 1992?

Dr. GRAMM. Under the S. 207 bill that was passed yesterday, stock index futures jurisdiction would remain with the CFTC. However, there are some stock index products, called IP's, that would be allowed to trade under SEC regulation. But we would not be reducing our oversight or our jurisdiction over the currently existing stock index futures.

So the budget impact on that particular issue would not affect us.

Senator BURDICK. Hypothetically, if all regulation of stock index futures were transferred, what would be the budget impact on CFTC?

Dr. GRAMM. If all stock index futures had been transferred over to the SEC, it was our view at the CFTC that the budget impact would not be very large. We monitor all futures from gold futures to oil futures, including stock index futures, in the same way, so that the budget impact, even if one part were to be ceded away, would not be large.

OMB had made a proposal and put in their budget footnotes that, if stock index futures were transferred to the SEC, our budget should be reduced by, I believe, $1 million. That footnote has now been superseded, not only by the administration position but also by the vote on the Senate floor. I will provide a statement of the administration's position for the record.

[The information follows:]

STATEMENT OF ADMINISTRATION POLICY

(This statement has been coordinated by OMB with the concerned agencies.)

S. 207—Futures Trading Practices Act of 1991 (Leahy (D) Vermont and 5 others).—Title III of S. 207, as proposed to be amended by Senator Leahy, represents a substantial step toward prompting intermarket stability by assigning broad authority for setting margin levels for stock index futures to the Federal Reserve

Board, and the Administration strongly supports section 301 of Title III, as amended.

Although the amended Title III language on exclusivity issues, while containing modest improvements and clarification over the current situation, falls short of the broader competition in financial instruments that the Administration initially proposed, the Administration generally supports Title III as amended, in the spirit of the compromise reflected in the amendment.

The Administration supports enactment of S. 207 if it is further amended to:

—Clarify that computerized trading should not be restricted to bring an adjunct to the open out cry auction system. This could be accomplished by inserting the words "both as a separate system or" following "computerized trading" in section 267 and substitute "encouraged" where the word "directed" first appears. The CFTC should be directed to study the viability of computerized trading and report to Congress.

—Eliminate the proposed exemption in section 102 for the CFTC from Federal pay caps and the regular compensation system. The Federal Employees Pay Comparability Act of 1990 provides numerous pay flexibilities to permit the CFTC to recruit and retain highly qualified personnel.

—Conform the provision on the CFTC's undercover authority in section 262 with the provision contained in section 203 of H.R. 707 as passed by the House. The House language would offer greater consistency with current practice.

—Amend subtitle F to protect from compelled disclosure certain information provided by foreign regulators. This provision is necessary to ensure that foreign governments are willing to share the CFTC sensitive financial information.

—Delete the provision in section 263 that would authorize the General Accounting Office to have direct access to information maintained by futures markets and related organizations. This information can already be obtained from the CFTC.

—Delete the requirement in section 268 that the CFTC "take into consideration, and endeavor to serve" the producers of agricultural commodities. This requirement would severely compromise the CFTC's role as a neutral regulator.

—Delete the requirement in section 267 that the CFTC cooperate in efforts to remove trade barriers related to electronic trading systems. Trade issues should receive careful consideration in separate legislation.

—Increase penalties for certain prohibited commodity transactions, strengthen ethics reporting provisions, enhance audit trail requirements, and clarify insider trading provisions.

—Authorize the CFTC to ban dual trading if it concludes that the benefits of such a ban would exceed its costs.

The Administration would oppose any amendment to remove or limit the increase in CFTC fee collections and any amendment similar to section 214 of last year's House-passed version of H.R. 2869. That section purported to limit the President's choice of persons who could be nominated for the CFTC and would conflict with the Appointments Clause of the Constitution.

Scoring for the Purpose of Pay-As-You-Go and the Caps

S. 207 would increase federal revenues as a result of the service fees established in the bill. Because no pay-as-you-go spending is mandated in the bill, these revenues would be counted as an offset to the end of the year pay-as-you-go requirement, which must be met to avoid a sequester. The bill also would authorize the appropriation of amounts that are substantially higher than those included in the current services baseline for the CFTC. The authorization is not subject to pay-as-you-go requirements.

OMB's preliminary scoring estimates are presented in the table below. Final scoring of this legislation may deviate from these estimates. If S. 207 were enacted, final OMB scoring estimates would be published five days after enactment, as required by the Omnibus Budget Reconciliation Act (OBRA). The cumulative effect of all enacted legislation on the pay-as-you-go requirement will be issued in monthly reports transmitted to Congress.

Estimates for Pay-As-You-Go

	(Increased receipts in millions of $)
1991	0
1992	3
1993	6
1994	11
1995	16
1991–1995	36

SETTING OF MARGINS BY FEDERAL RESERVE

Senator BURDICK. Does the Senate bill give jurisdiction on margins to the FED?

Dr. GRAMM. The Senate bill provides the Federal Reserve Board of Governors oversight over the setting of margins for stock index futures.

As you know, the margins on stock index futures currently are set by the exchanges. The exchanges will retain that day-to-day margin setting authority, but the FED would have oversight authority, which they may delegate to the CFTC. The CFTC does not now have any margin oversight authority except in emergency situations.

TRANSACTION FEE

Senator BURDICK. The exchanges are uniformly levying sharp criticism on the administration's proposal to impose a transaction fee on all futures and option deals. They indicate that it is too costly, it will reduce their competitiveness in the international market, and business will be lost to foreign exchanges.

How do you respond to these allegations?

Dr. GRAMM. The Commission, as you know, does not oppose the transactions tax. I know that the industry is concerned about international competitiveness, and I would say that it is something that Congress would have to consider very carefully.

Senator BURDICK. Why has the fee been increased from 11 cents, as proposed last year, to 13 cents in the proposal this year? Why was it increased?

Dr. GRAMM. The administration's proposal has been increased probably because the round-turn fee is established to cover the cost of the CFTC budget. By increasing the earlier proposal by 2 cents, it would probably generate another $8 or $9 million.

Senator BURDICK. Why are we dealing with this matter at all? This is the Appropriations Committee. Is this not all within the authority and the jurisdiction of the authorizing committee instead of this committee? Has any legislation like that been proposed in the authorizing committee?

Dr. GRAMM. This is an OMB proposal. It was not a proposal made by the CFTC during the reauthorization process. As you know, the reauthorization process has been a rather lengthy one. We started this reauthorization process over 2 years ago, which even preceded the OMB's proposal. But there has not been a proposal submitted to the authorizing committee.

Senator BURDICK. You will have to agree that it does belong in the authorizing committee?

Dr. GRAMM. I would have to ask my lawyers about that. They understand Congress and which committee does which.

Senator BURDICK. Do not feel badly. A lot of people do not understand Congress. [Laughter.]

Your explanatory notes indicate there was a Commission request of $46,985,000 for fiscal year 1992. In the end, OMB approved a budget of $48,285,000. Please explain who requested the increase and why it was approved.

Dr. GRAMM. The request was adjusted to add $1 million to cover the cost of a 4.2-percent pay raise that will become effective in January 1992. Additionally, in discussing the budget request with OMB, it was agreed that six FTE's, six more staff-years, were needed to further strengthen the financial and floor oversight programs of the Commission.

Senator BURDICK. Salaries and oversight, then? This money was used for salaries and oversight?

Dr. GRAMM. Salaries and oversight, yes, sir.

SUBMITTED QUESTIONS

Senator BURDICK. Thank you, Dr. Gramm. This concludes your portion of the hearing. We may have additional questions for you which we will submit for a written response and ask you to provide it within 5 days.

Dr. GRAMM. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR SPECTER

NEW AUDIT TRAIL SYSTEMS

Question. In the Futures Trading Practices Act which passed the Senate on April 18, 1991, the CFTC is required to implement within three years new audit trail systems capable of capturing transaction times and data independently and precisely. The CFTC must report to Congress within three years after installing this new system. Assuming that this provision that passed the Senate becomes law, how do you intend to accommodate the mandate?

Answer. The provision you refer to requires that exchanges, within three years, implement new audit trail systems to capture trade times independently and precisely. Currently, the Chicago Board of Trade and Chicago Mercantile Exchange are jointly developing a hand-held terminal which is intended to meet the standards of S.207. The Commission has received a number of positive progress reports on the development of the terminal. Most recently, the Chicago exchanges have begun laboratory testing of the initial prototype units which they have received from vendors. Based upon these reports, I believe the Chicago exchanges are on a schedule which, barring unforeseen problems, would meet the three-year schedule in S.207. Of course, the uncertainties associated with the development of new technology make it difficult to predict an exact timetable. The Commodity Exchange, Inc. also is developing a hand-held terminal.

It is my understanding that the Chicago exchanges plan to make available the production version of their terminal to interested exchanges. The degree to which the hand-held terminal can be used by other exchanges will depend on a number of factors, including cost and issues related to integrating the terminals into different trading environments.

DUAL TRADING

Question. Reports indicate that dual trading presently occurs when a trader makes a trade for himself and his clients at the same time in the commodities exchange market. Is not this practice which can greatly benefit the trader illegal under present law? Do you concur that dual trading occurs at the futures exchange? If so, what is CFTC currently doing to prohibit this practice? Given that the legislation seeks to inhibit the practice of dual trading how will the CFTC monitor individual traders?

Answer. Dual trading generally refers to the practice of trading by a floor member in two capacities - as a "trader" trading for his own account, and as a "floor broker" trading for customer accounts, within a specified time period. This practice itself is not illegal. However, if abused, it could create the opportunity for floor brokers to take advantage directly of customer orders and, as a consequence, could facilitate the commission of certain types of trading abuses. For example, such possible abuses include directly trading ahead of a customer order, or directly trading against a customer order. Some restriction on dual trading could eliminate some of these direct trading abuses and also limit conduct that could facilitate indirect trading abuses through the use of an accommodating trader.

It has been argued that dual trading improves market liquidity. However, the Commission staff's economic study of dual trading generally concluded that dual traders' performance in providing market liquidity is not superior to that of exclusive non-dual traders.

Subsequent to publishing that report, the CFTC issued a proposed regulation to restrict dual trading so as to limit the potential for dual trading-related abuses. The Commission's proposed dual trading regulation would require each contract market to maintain rules that prohibit a floor broker, during any trading session in which he held or executed a customer order, from trading or placing an order in the same commodity for his own account, an account over which he had trading discretion or an account in which his ownership interest was ten percent or more. The contract markets would be permitted, subject to certain requirements, to adopt specified exceptions to the dual trading restriction, including brokerage for member customers, brokerage for public customers where such customers have granted written consent, and correction of errors resulting from trades executed to fill customer orders. The proposed rule suggests a phased in 12-month implementation plan that would apply the dual trading restriction to one or two of the most actively traded commodities on each of the seven largest exchanges. Commission staff currently is analyzing the 314 comments received in response to its Federal Register publication of the proposed dual trading rule and various other data. Of course the CFTC would conform any such rule to comply with any dual trading-related requirements enacted into law by Congress.

In conjunction with the implementation of a dual trading restriction, each exchange would be required to develop and effectuate surveillance procedures capable of detecting dual trading in restricted markets. The Chicago Mercantile Exchange, for example, which independently adopted a dual trading restriction, developed computerized exception reports to identify dual trading in restricted markets and other automated trading reports to monitor compliance with its dual trading rule. The CFTC, in its oversight role, would monitor compliance by the exchanges with the dual trading provisions adopted pursuant to the CFTC's mandate.

INTER-MARKET COORDINATION BETWEEN CFTC AND SEC

Question. Concerns were expressed during floor consideration of the Futures Trading Practices Act yesterday that there is not sufficient inter-market coordination between the CFTC and the SEC. Given that inter-market coordination is vital to ensuring proper trading and communication between the markets regarding misconduct, what measures do you intend to pursue with the SEC to adopt such coordination to help prevent another market crash and deter fraud.

Answer. The Commission is pleased with the degree of coordination that has been achieved since the market break of October 1987. After this event, the Presidential Working Group on Financial Markets, represented by the Department of Treasury, the Federal Reserve Board, the Securities and Exchange Commission, and the CFTC, proposed circuit breakers, which were explicitly intended to deal with "large, rapid market declines that threaten to create panic conditions." The Working Group recommended downward price limits on stock index futures and options, and trading halts at price levels comparable to 250 and 400-point declines in the Dow Jones Industrial Average from the previous day's closing value. All major U.S. exchanges which trade stocks, stock options, stock index futures, stock index options, and options on stock index futures have adopted circuit breaker rules similar to those recommended by the Working Group. The Commission currently engages in substantial information sharing with the SEC, especially with regard to the expiration of contracts and regarding days of extraordinary price volatility. For example, the Commission's surveillance staff routinely advises the SEC staff of the largest positions in stock index futures markets which may cause buy- or sell-side imbalances in the underlying stock market at contract expiration. Similarly, the SEC advises the Commission of large positions in stock index options. Commission staff also conduct a quarterly surveillance

briefing, regarding all financial futures markets, with representatives of the SEC, the Federal Reserve Board, and the Treasury Department.

The CFTC and SEC have also coordinated with respect to the consideration and approval of cross-margining of related stock index products traded on futures and securities exchanges. The systems for cross-margining which have been approved may reduce the cash flows required to address price changes during turbulent markets.

Commission staff have participated in the Intermarket Surveillance Group (ISG) and the Intermarket Financial Surveillance Group (IFSG), along with staff of the SEC and the major exchanges. The ISG has studied the issue of inter-market front-running. The IFSG has developed procedures for the sharing of information concerning high risk firms. The Commission also participates in the INFOE (or Hoot and Holler) system, the open telephone line linking all stock, stock index futures and option exchanges, as well as the CFTC and the SEC. This system keeps all relevant parties informed about what is happening on each exchange.

The CFTC fostered the development of an electronic information-sharing system in which all futures and securities clearing organizations can participate to provide a basis for risk assessment across markets with respect to common members. Information in this database was made available to the Federal Reserve Board staff in October 1989. The CFTC also participates with representatives of the SEC and the Federal Reserve Board, among others, in an American Bar Association Advisory Committee reviewing issues relating to the transfer and pledge of stock, securities options, and futures accounts.

We have further cooperated with the SEC in many other areas of joint concern, such as minimum financial requirements for related types of firms.

The Commission believes that the current level of coordination is appropriate to achieve the common regulatory objectives of the SEC and the Commission and that the programs discussed herein are intended to maintain and enhance our ability to prevent another market break and deter fraud. Of course, no amount of coordination can guarantee that there will not be sharp movements in stock market prices. The stock market event of October 1987 were not caused by a lack of market coordination. Nevertheless, the Commission firmly believes that coordination benefits the financial integrity and efficiency of the markets, as well as market users, and will continue to coordinate its regulatory activities with the SEC in order to ensure the integrity of these markets.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

STATEMENT OF DR. DAVID A. KESSLER, COMMISSIONER

ACCOMPANIED BY:

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DR. DOUGLAS L. ARCHER, DEPUTY DIRECTOR, CENTER FOR FOOD SAFETY AND APPLIED NUTRITION

INTRODUCTION OF WITNESS

Senator BURDICK. Our next witness is from the Food and Drug Administration. I would like to make a special welcome to Dr. David Kessler, the new Commissioner of FDA, who is appearing before the subcommittee for the first time.

The budget request for FDA totals $573 million in appropriated funds. This amount is a reduction of $118 million from the 1991 level. However, the President proposes to levy user fees and generate $198 million in additional funds for the Agency. As a result, an overall increase of $80 million would be achieved if these user fees were realized.

I would like to ask you to summarize your statement at this time and make any additional comments you would like.

Dr. KESSLER. Mr. Chairman, I appreciate the opportunity to appear before you today to support the Food and Drug Administration's budget request for 1992. Since this is my first appearance before your subcommittee, let me deviate for just a minute from the usual protocol and share with you, if I may, some of my personal thoughts about the Agency.

The last couple of years have been difficult ones for the FDA: The generic drug scandal; the erosion of Agency resources over a decade that began in the late 1970's; a perception that the Agency lacked the will to enforce the statute. This all contributed to a lack of confidence in the Agency's ability to carry out the task of protecting the public health.

To strengthen the Agency's credibility—and that is what we must do—there are two things that I will stress throughout my

tenure. The first is strong enforcement of the statute. Enforcement of the law is essential, but I recognize that enforcement is only a tool, not an end in and of itself. It is the most important tool, however, to assure the American public of the safety and efficacy of its food and drug supply. Strong enforcement provides the incentive, if you would, to ensure that sellers of food and drugs comply with all laws.

My second major emphasis will focus on how the Agency does its work. Mr. Chairman, we are here today to ask for more resources to support the President's request. I recognize that resources are only part of the answer. We need to manage better. The Agency needs strong management, especially in the areas of product evaluation. Strong enforcement, strong management: That is what I care about.

INTRODUCTION OF ASSOCIATES

Let me introduce my colleagues who join me today. At my extreme right, Mr. Dennis Williams, Deputy Assistant Secretary for Budget in the Department of Health and Human Services; Margaret Jane Porter, Chief Counsel, Food and Drug Administration; James S. Benson, Deputy Commissioner of FDA.

At my immediate left are Sharon Smith Holston, Associate Commissioner for Management and Operations at the Agency; and Frank P. Claunts, Director, Division of Financial Management at FDA.

Our emphasis on strong enforcement is reflected heavily in this year's budget request. I am determined that the field staff have the authority, the up-to-date tools, and resources to carry out the mandate of the statute. Approximately two-thirds of our program increases in our 1992 requests are devoted to enhancing FDA's enforcement work to ensure compliance with the law.

SEAFOOD SURVEILLANCE PROGRAM

We are requesting an increase of $15 million to strengthen our seafood surveillance program in 1992. These funds will enable the FDA to address the recommendations of the National Academy of Sciences. These increased resources will also permit us to expand our technical assistance to State and local governments and enable us to help the individual States reduce the harvesting of illegal seafood from contaminated waters.

Assuring the Nation's supply of blood and blood products and assuring that they are safe demands continued vigilance on FDA's part. We are requesting an increase in 1992 to enable us to increase our inspection efforts and to cope with the complications associated with the development of additional blood screening tests, new computer control systems, and new donor deferral procedures. This increase will enable us to lower the risk of infectious disease transmissions.

GENERIC HUMAN DRUGS

Mr. Chairman, the area of generic human drugs also demands continued high priority. The problems uncovered in the generic

drug scandal demand that we maintain our vigilance and conduct our own investigations whenever we suspect fraud or abuse.

To support this increased presence during the current fiscal year, FDA is establishing a cadre of skilled criminal investigators to investigate alleged fraud. To strengthen this effort by adding 30 more specifically trained criminal investigators, we are requesting an increase of $2.5 million in 1992.

Let me now move from enforcement to the management issues the agency is facing especially in the area of approving new products. One-quarter of the program increases we are seeking in 1992 will be devoted to improved product approval for AIDS drugs, biologics, generic drugs, and medical devices.

I come from a hospital that serves a significant number of AIDS patients. I know firsthand how this disease devastates, not just the afflicted but the families, the friends, and the community. I have witnessed the frustration and impatience of people affected by AIDS, and I share it.

FDA remains steadfast in its resolve to do everything possible to alleviate the suffering of the many Americans infected with this deadly virus. Their numbers grow daily. The Agency is receiving a continually increasing volume of AIDS-related applications for evaluation and licensing. Although we continue to try to keep pace with the greater volume of applications, the increasing workload hampers our efforts. We are, therefore, requesting an increase of $2.8 million in 1992 for 37 additional employees to help us keep up with the workload.

Let me add that this request comes in addition to the increases I mentioned in discussing blood safety. It brings our total program increase for AIDS to 87 FTE's and $6.6 million.

Moving to the issues involved in approving generic human drugs, let me report that we expect the influx of abbreviated new drug applications and amendments to increase significantly. Twenty-two new chemical entities are due to come off patent by 1992, and we expect each drug to generate at least 10 applications. To enable us to keep pace with this work, we are requesting an increase of $3.1 million at 30 FTE's in 1992.

In addition, these resources will allow us to conduct more bioequivalency tests. These are required as we more strictly manage the evaluations of generic drug applications to ensure that the data submitted by the industry are not fraudulent.

The remaining 1992 program increases are requested for three additional areas: food labeling; program integrity; and the consolidation of headquarters facilities. Let me briefly mention efforts to consolidate FDA's facilities in the Washington metropolitan area.

Mr. Chairman, FDA headquarters are located in 32 buildings in 11 locations throughout the District of Columbia and suburban Montgomery and Prince Georges Counties in Maryland. Many of these buildings are very old and badly overcrowded. These conditions place a great and unnecessary burden on FDA staff.

In 1990 with your support we began working closely with GSA. We are requesting $1.7 million in 1992 to support the continuation of these efforts.

BUDGET REQUEST

Let me conclude by summarizing FDA's 1992 budget request. The request includes $35.2 million to provide for increased payroll and other operating costs. In addition, our request includes $44.5 million for the program increases that I have already described, $29.5 million for enhanced enforcement, $10.6 million for improved product evaluation capabilities, and $4.4 million to enhance food labeling, bolster program integrity, and prepare for the consolidation of FDA headquarters.

Mr. Chairman, this concludes my prepared remarks. I would be happy to answer any questions from you or your colleagues.

PREPARED STATEMENT

Senator BURDICK. We have your statement, Dr. Kessler. It will be made a part of the record in full.

[The statement follows:]

STATEMENT OF DAVID A. KESSLER

Mr. Chairman, I thank you for the opportunity to appear before your subcommittee today to support the Food and Drug Administration's budget request for 1992. I would first like to introduce my colleagues at the table with me . . . other members of my staff are also present to respond, if necessary, to specific questions and interests of the Committee.

Let me say that I begin my tenure as Commissioner with a deep appreciation for the rich history. and tradition of the Food and Drug Administration. Few institutions, few agencies, have such continuity of mission. This mission has served the American public well in assuring that we maintain a remarkable standard of product safety. Whatever the system's imperfections, FDA stands as a model scientific regulatory agency. My goal as Commissioner is to build upon this well-established tradition of excellence.

Now I would like to review briefly the selected increases we are proposing in our 1992 request. I will present this review within the framework of three broad categories: Enforcement of the Law; Product Evaluation; and, Other Initiatives.

ENFORCEMENT OF THE LAW

The major theme of this budget request is strong enforcement of the statute. This is in the best interest of both the consuming public and the industry. I am determined that the field staff have the authority, the up-to-date tools, and the resources to move expeditiously. About two-thirds of the program increases in our 1992 request are devoted to enhancement of FDA's enforcement activities to ensure compliance with the law.

Seafood Surveillance

The National Academy of Sciences recently concluded in their report on seafood safety that most health risks associated with seafood originate in the environment and should be dealt with by control of harvest or at the point of capture. These health problems are associated primarily with raw shellfish, and need to be tackled in the water, before harvesting. Additional steps also have to be taken during harvesting and processing to ensure that the finished product is free of hazards and sanitation problems.

We are requesting an increase of $15 million in 1992 to strengthen our seafood surveillance program. These funds will support the addition of 150 positions to continue expansion of our monitoring efforts in the field and enable us to address a number of recommendations of the National Academy of Sciences. These increased resources will also let us expand our technical assistance to state and local governments and enable us to help the states in their efforts to reduce the harvesting of seafood from contaminated waters. We are proposing to raise half of the additional $15 million from the regulated industry. The Administration will submit legislation requiring seafood processing plants to register with the Agency and to pay FDA an annual fee to partially offset the cost of FDA's seafood surveillance activities.

Field Infrastructure

Nowhere in FDA is the need for replacement of laboratory and ADP equipment more obvious than within our field force. Replacement of scientific equipment has been deferred to the point that much of what the Agency has exceeds life expectancies. Many of our scientists are spending almost as much time repairing their equipment as they are using it.

We are requesting $2.2 million in 1992 to replace obsolete equipment and to invest in continued work on a phased replacement of the field's antiquated automated information systems and a new import support information system. A portion of the $15 million requested for seafood surveillance will also be used to improve information systems critical to improved seafood surveillance.

Blood Safety (AIDS)

Assuring the safety of the nation's supply of blood and blood products demands continued vigilance on FDA's part. We are requesting an increase of $3.8 million and 50 FTEs in 1992 to enable us to increase our inspection efforts and to cope with the complications associated with the development of additional blood screening tests, new computer control systems, and, new donor deferral procedures. This increase will also enable us to address new efforts at headquarters to improve blood safety, such as enhanced donor screening initiatives, and enhanced research to lower the risk of infective disease transmission.

Generic Human Drugs

Although FDA's testing still has not revealed widespread safety concerns and investigations to date have revealed the involvement of only a small number of firms in intentional deceit, the problems uncovered in this crisis demand that we maintain our vigilance and conduct our own investigations as instances of suspected fraud and abuse occur. To that end, FDA is establishing a cadre of skilled criminal investigators in 1991 devoted to investigatory activities involving allegations of fraud. We are requesting an increase of $2.5 million in 1992 to strengthen this effort with 30 more specially trained criminal investigators.

Medical Device Safety

When it comes to medical devices, FDA basically has a two-fold enforcement problem. First, the growth in the number of medical device manufacturing establishments over the past several years has outdistanced our ability to meet the statutory inspection requirements. These inspections are particularly critical since most medical devices do not require FDA pre-market approval evaluation. Second, we anticipate that the recently enacted Safe Medical Device Act of 1990 will cause an increase in the number of Medical Device Reports received for investigation of instances where the failure of a medical device is reported to contribute to the death or serious injury of a patient.

In 1992, we are requesting an increase of $5.2 million to support the addition of 69 FTEs to enable us to move toward meeting the biennial inspection requirement and to increase our medical device reporting investigations in keeping with our responsibility to ensure compliance with the statute. We must be in a position to respond rapidly and take corrective action immediately.

Generic Animal Drug Investigations

To meet the requirements of the Generic Animal Drug and Patent Term Restoration Act, FDA will conduct more extensive investigations in the manufacturing industry, and increase our sampling and analyses of products to ensure integrity of both the process and the product. We are requesting an increase of $900,000 to support 12 staffyears for this work in 1992.

PRODUCT EVALUATION

About 24 percent of the program increases we are seeking in 1992 are to support enhanced product approval activities in the AIDS, biologic, vaccine, generic drug, and medical device programs.

AIDS

I come from a hospital that serves a significant number of AIDS patients. I know first-hand how this disease devastates, not just the afflicted but the family, the friends, and the community. I have witnessed the frustration and impatience of people affected by AIDS, and I share it. FDA remains steadfast in our resolve to do all that we can to find ways to alleviate the suffering of the thousands infected with this deadly virus.

Although Zidovudine (known commonly as AZT) remains the only drug approved to treat AIDS directly, six other products have been approved for the treatment of AIDS-related conditions. However, the Agency is receiving a continually increasing volume of AIDS-related applications for evaluation and licensing. As of the end of 1990, we had received more than 350 INDs for the testing of new candidate AIDS drug and biologic therapies. The number of applications reviewed by our staff averaged about seven per month in 1990. At this rate, we foresee the possibility of over 500 INDs by the end of 1992. While we are continuing to try to keep pace with this volume of applications, the increasing workload continues to put a serious strain on our efforts. Therefore, we are requesting an increase of $2.8 million in 1992 to support 37 additional employees to help us keep up with the drug and biologic product evaluation workload. This is in addition to the 50 FTEs I already referred to in discussing blood safety—so our total program increase for AIDS is really 87 FTEs at $6.6 million.

Generic Human Drugs

FDA has established a separate division to review generic drugs and has instituted new procedures ensuring that the review process for generic drug applications is fair and impartial. As the Agency continues to be successful in its efforts to restore credibility and integrity in the generic human drug review process, it is expected that the influx of Abbreviated New Drug Applications and amendments will increase significantly. Twenty-two new chemical entities are due to come off patent by 1992, which we expect to generate at least 10 applications per entity. We are requesting an increase of $3.1 million and 30 FTEs in 1992 to enable us to keep pace with this workload, and to conduct increased bioequivalency tests as needed in the stricter management of the evaluation of each application to ensure that data submitted is not fraudulent.

Biologic and Vaccine Products

We face two major problems in our evaluation of the safety and efficacy of candidate biological products: first, the number of applications received for review is continuing to increase; second, the applications are for products which are increasingly more complex, requiring extensive scientific research and review expertise. The number of biological INDs for non-AIDS-related products has increased 90 percent since 1984, and, in 1990, over half of these INDs were for biotechnology-derived candidates. In 1992, our requested increase in this program area includes $513,000 to permit us to recruit 6 additional scientific reviewers to enable us to keep pace with the growing demands of this workload.

The balance of our request in 1992 in this area is for an increase of $3.1 million to support our vaccine efforts. Through the National Vaccine Program, the Public Health Service has launched a Childrens' Vaccine Initiative which has, as its objective, the development of new, more efficient approaches to childhood immunization. In our regulatory capacity, we have a vital role in this effort. We are asking for additional funds to enable us to contribute our appropriate share to this effort as well as to keep up with the increasing candidate vaccine evaluation workload.

Medical Devices

Over the years, the medical device evaluation workload continues to increase, both in number of applications received for review and in the complexity of technologies that must be evaluated. Major submissions have grown from 3,925 in 1982 to 9,865 in 1990. We are requesting an increase of $1,125,000 and 15 FTEs to help us sustain our level of efficiency of our review efforts in the face of increasing technological innovations and workload growth.

OTHER INITIATIVES

The remainder of our 1992 program increases are requested for three other initiatives: food labeling, program integrity, and headquarters facilities consolidation.

Food Labeling

One of the ways FDA can contribute significantly to a healthier America is through its responsibility for food labeling.

The Nutrition Labeling and Education Act of 1990 calls for a far-reaching food labeling strategy involving a comprehensive review of the current food labeling regulations which will result in major changes in food labeling regulations. The law also requires us to increase our surveillance and enforcement activities related to food labeling. In 1992, we are requesting an increase of $1.2 million to support the addition of 11 staffyears to enable us to make a beginning in our efforts to meet the challenges encompassed in the new law. Our focus will be to ensure that food labels

assist each consumer in choosing a diet that suits his or her individual health needs.

Program Integrity

Integrity in all of FDA's processes and operations is an important and constant concern of mine. The Agency's internal control workload—development of corrective action plans, master control plans, and oversight of accomplishment in correcting identified internal control weaknesses—associated with implementation of the Federal Manager's Financial Integrity Act has tripled since 1988. Further, our accounting system consists of many components which are out-of-date and subject to integrity and security risks. We are requesting an increase of $1.6 million and 14 FTEs to enhance our internal control efforts and to support the phased acquisition of systems, programs, and equipment so that we can continue to have confidence in our financial data.

FDA Headquarters Consolidation Studies

FDA's headquarters components are located in over 30 buildings in 11 locations throughout the District of Columbia and Prince Georges and Montgomery Counties. Besides being geographically scattered, many of the buildings are very old and overcrowded. This puts a tremendous burden on the staff to do its job. In 1990, with your support, we began working closely with the General Services Administration and initiated several studies necessary to estimate the amount of space and land that would be required to consolidate all the components into a single location. We are requesting $1.7 million in 1992 to support continuation of these studies to plan for consolidation.

SUMMARY OF BUDGET REQUEST

In conclusion, I would like to summarize our 1992 budget request.

Our total request for 1992 is for $770.2 million, of which $190.0 million would be derived from proposed product review charges and another $7.5 million would come from fees associated with a seafood processor registration system. The request includes $35.2 million to provide for increased payroll and other operating costs. In addition, our request includes $44.5 million in program increases that I have already described in this statement. To summarize—increases of $29.5 million to enhance FDA's enforcement capabilities; $10.6 million to enhance FDA's product evaluation capabilities; and, finally, $4.4 million to enhance our capabilities in food labeling, and in program integrity, and to let us continue necessary studies for consolidation of FDA headquarters activities.

With respect to user fees, Mr. Chairman, I realize that the Administration's request is at odds with directives we have received from the Committee in the past. However, the Administration and I believe that user fees represent an appropriate means of financing the FDA and an essential tool for improving the Agency's capacity to protect public health and safety. User fees are appropriate because the industries whose products we approve derive a private benefit from that approval above and beyond the gains to public health derived from the availability of new therapies. The constraints of the Budget Enforcement Act of 1990 make the need for mechanisms like user fees more clear than ever before. My purpose here today is to persuade you of the importance of increased appropriations for the FDA, which is why the Administration believes that user fees, in addition to being an appropriate way to finance product review, are also essential to the continued health of the Agency. I support this position.

Mr. Chairman, this concludes my prepared remarks. I would be happy to respond to any questions you or the other members of the Committee might have.

BIOGRAPHICAL SKETCHES

JAMES O. MASON

James O. Mason, M.D., Dr. P.H., was sworn in April 21, 1989, as Assistant Secretary for Health, Department of Health and Human Services. Dr. Mason was nominated by President Bush April 7, 1989, and confirmed by the Senate April 19, 1989.

Before assuming responsibility for the U.S. Public Health Service, Dr. Mason had served, since 1983, as director of the Centers for Disease Control and administrator of the Agency for Toxic Substances and Disease Registry. During his tenure at CDC, Dr. Mason also served as acting Assistant Secretary for Health from February to December 1985. Dr. Mason served as executive director of the Utah Department of Health, with responsibility for health and health care financing, from 1979 to 1983.

He was associate professor and chairman of the Division of Community Medicine, Department of Family and Community Medicine, at the University of Utah College of Medicine from 1978 to 1979. He directed a multiple-hospital health care corporation owned by The Church of Jesus Christ of Latter Day Saints from 1970 to 1975.

As Assistant Secretary for Health, Dr. Mason directs the activities of the Public Health Service, which includes eight agencies: the Alcohol, Drug Abuse and Mental Health Administration; the Centers for Disease Control; the Agency for Toxic Substances and Disease Registry; the Food and Drug Administration; the Health Resources and Services Administration; the National Institutes of Health; the Indian Health Service; and the Agency for Health Care Policy and Research.

Dr. Mason provides policy guidance as well for HHS programs outside of PHS, and maintains relationships with other government and private agencies concerned with health. He advises and assists the Secretary on health policy and on all health-related activities of the department.

Dr. Mason was born June 19, 1930, in Salt Lake City, Utah. He received his B.A. and M.D. degrees from the University of Utah in 1954 and 1958. He received his master of public health and doctorate of public health from the Harvard School of Public Health in 1963 and 1967. Dr. Mason served his internship at Johns Hopkins Hospital in Baltimore from 1958 to 1959, and was an internal medicine resident at Peter Bent Brigham Hospital, Harvard Medical Service, in Boston from 1961 to 1962.

He has received numerous honors and awards. Among these are the Public Health Service Distinguished Service Medal (1988) and the University of Utah's Distinguished Alumni Award (1973). He is a member of a number of honorary and professional societies including the American Medical Association, the Institute of Medicine of the National Academy of Sciences, and the American Public Health Association. He has served on many national and international committees, councils, boards and task forces, including the United Nations Development Program/World Bank/World Health Organization Special Program for Research and Training in Tropical Diseases, Scientific and Technical Advisory Committee; and the National Institutes of Health Recombinant DNA Advisory Committee.

Dr. Mason is certified by the American Board of Preventive Medicine. He has written numerous articles and book chapters on a wide range of subjects related to the prevention and control of disease. He is a national spokesperson on the prevention and control of infectious disease, chronic disease and injury, and a leading architect of public policies concerning these health problems.

Dr. Mason and his wife, the former Marie Smith, have five sons and two daughters: James, Susan, Bruce, Ralph, Samuel, Sara and Benjamin.

DAVID A. KESSLER

As Commissioner of the Food and Drug Administration, David A. Kessler guides an agency that monitors foods, cosmetics, animal drugs and a wide variety of medical products, prescription and nonprescription. All told, FDA has an impact on the safety and value of about 25 percent of what the American consumer purchases. Dr. Kessler took over as FDA Commissioner on December 3, 1990.

Both a Harvard-trained physician and a University of Chicago-trained lawyer, Dr. Kessler brings a breadth of research, educational, professional and administrative experience to this post.

Administrative experience. From 1984 until his FDA appointment, Dr. Kessler was medical director of the Hospital of the Albert Einstein College of Medicine in the Bronx, N.Y. He helped establish the hospital's medical and pediatric emergency/evaluation units. During his tenure, the medical service was consolidated, and a new cancer unit, a blood donor facility and an adult dialysis center were opened, while the dialysis program for children was expanded. Under his leadership, physician assistants were brought into the hospital's teaching program in what has become a model for teaching hospitals in New York State. And Dr. Kessler built the hospital's current quality assurance system.

Dr. Kessler holds hospital appointments at the medical center and teaching appointments in pediatrics and in the department of epidemiology and social medicine.

He was awarded an advanced professional certificate from the New York University Graduate School of Business Administration in 1986.

Dr. Kessler brings to FDA a breadth of experience in FDA issues, having written in the New England Journal of Medicine and other professional journals on food labeling and safety, drug and medical device issues. He has chaired the drugs and biologics subcommittee of the Food and Drug Administration—a group of experts reviewing the resources, mission and organization of the agency. He continues on the

committee as a non-voting member. (The committee's final report is expected in the first half of 1991.)

Since 1986, Dr. Kessler has taught food and drug law at Columbia University School of Law in New York City.

From 1981 to 1984, Dr. Kessler was a consultant on FDA-related issues to Senate Labor and Human Relations Committee Chairman Orrin G. Hatch.

A pediatrician, Dr. Kessler did his internship and residency at Johns Hopkins, Baltimore. Despite his schedule as medical director at the Albert Einstein Hospital, Dr. Kessler made it his business to see sick children in one of New York's municipal emergency rooms each week.

He is also one of the authors of "Caring for the Elderly; Reshaping Health Policy," Johns Hopkins University Press.

He was Phi Beta Kappa and was graduated magna cum laude with a bachelor of arts by Amherst College in 1973; with an M.D. from Harvard Medical School in 1979. An attorney, he was graduated and with a doctor of law (J.D.) from the University of Chicago Law School, where he was an associate editor of the University of Chicago Review, in 1978.

Dr. Kessler was born May 31, 1951, in New York City. He is married to attorney Paulette Steinberg Kessler. They have two children, Elise and Benjamin.

JAMES S. BENSON

As Deputy Commissioner of the Food and Drug Administration, Mr. Benson is chiefly responsible for managing the daily operations of the Agency. He shares responsibility with the Commissioner in establishing policy directions and program strategies to ensure public health protection in the areas of food, human and animal drugs, cosmetics, medical devices and radiological products.

Mr. Benson was born in Baltimore in 1939. He holds a B.S. degree in civil engineering from the University of Maryland (1962) and an M.S. degree in nuclear engineering from the Georgia Institute of Technology (1967).

Entered the U.S. Public Health Service (USPHS) as a State Assignee to the Wyoming Health Department (1962–63) and to the Georgia Health Department's Radium Management Project (1963–65). Also served in USPHS' Division of Radiological Health (1965–66).

Served as Director of Operations for Bell and Howell Development Institute (1967–70) and Director for Manpower Programs at Westinghouse Learning Corporation (1970).

Returned to government service in FDA's Bureau of Radiological Health (1971). Was appointed Director of the Bureau's Division of Training and Medical Applications (1972), where he coordinated a national educational program for health professionals and consumers on medical radiation protection. Was promoted to Deputy Bureau Director four years later.

In 1982, following an internal FDA reorganization, he was named Deputy Director of the Center for Devices and Radiological Health. In this capacity, he managed an Agency-wide analysis of operational weaknesses in the medical device program and instituted reforms to fortify the premarket approval and post-market surveillance/enforcement functions.

Was enlisted as Acting Deputy Commissioner in 1988 and assumed a leadership role in the areas of food safety, food labeling, seafood, generic drugs, medical device legislation, budget formulation and internal management practices. Was appointed Acting Commissioner by HHS Secretary Sullivan in late 1989—a post he held until confirmation of a permanent Commissioner one year later, when he returned as Deputy Commissioner.

Mr. Benson and his wife, Karen, have two children and reside in Rockville, Maryland.

SHARON SMITH HOLSTON

Serves as principal advisor to the Commissioner for all phases of management inherent in the operations of FDA. Responsible for the effective utilization of all management resources and the implementation of operating programs by coordinating the funding, personnel, facilities, procurement, grant and contract management data processing, and safety and security needs of the Agency.

Received B.A. degree in French language and literature from Barnard College, Columbia University in 1967. Received M.P.A. degree from the John F. Kennedy School of Government, Harvard University in 1986.

Joined the federal government in 1967 as a Personnel Management specialist for the U.S. Commission on Civil Rights. Served on the Welfare Reform Planning Staff in the Department of Health, Education, and Welfare from 1970 to 1972. Came to FDA in 1972 as Deputy EEO Officer for the Office of the Commissioner. Worked in the Division of Personnel Management from 1975 to 1977. Served as Acting Executive Officer for the Office of the Commissioner from 1977 to 1979 and Special Assistant to the Associate Commissioner for Management and Operations from 1979 to 1980. Served as Deputy Associate Commissioner for Management and Operations from 1981 to 1986 and Acting Associate Commissioner for Management and Operations from 1986 to 1988. Appointed to current position in 1988.

Received an FDA Award of Merit in 1982 and 1987, the Commissioners Special Citation in 1985, and the DHHS Senior Management Citation in 1988.

FRANK P. CLAUNTS

Position: Director, Division of Financial Management, Office of the Associate Commissioner for Management and Operations.

Birthplace and date: Bartlesville, Oklahoma, September 5, 1942.

Education: Bachelor of Arts, Texas Tech, June 1964, Master of Business Administration, American University, May 1975.

Honors and awards: Food and Drug Administration Commissioner's Special Citation, 1989; Public Health Service Superior Service Award, 1988; Food and Drug Administration Award of Merit, 1987; Food and Drug Administration Commendable Service Award, 1980.

Experience: July 1980 to Present, Director, Division of Financial Management, Food and Drug Administration; September 1977-June 1980, Director, Division of Management Services, Food and Drug Administration; July-September, 1977, Special Assistant to the Associate Commissioner for Management and Operations, Food and Drug Administration; August 1976-June 1977, Legislative Analyst, Office of Management and Budget; July 1972-August 1976, Management Analyst, Food and Drug Administration; June 1971-May 1972, State Director of the Peace Corps in Bihar, India; July 1969-June 1971, India Desk Officer, Peace Corps, Washington, D.C.; September 1966-July 1969, Peace Corps Field Officer in north-eastern India; June 1964-June 1966, Peace Corps Volunteer, Tripura, India.

MARGARET JANE PORTER

Professional Experience: Oct. 1989-present, Chief Counsel, Food and Drug Division, Office of the General Counsel, United States Department of Health and Human Services; 1986–89, Deputy Chief Counsel for Social Security Programs Social Security Division, Office of the General Counsel, United States Department of Health and Human Services; 1983–86, Supplemental Security Income Branch Chief, Social Security Division, Office of the General Counsel, United States Department of Health and Human Services; 1977–83, Staff Attorney, Health Care Financing and Human Development Services Division, Office of the General Counsel, United States Department of Health and Human Services; 1971–74, Administrative and Editorial Assistant, Government Documents Cataloger, Special Recruit, Library of Congress.

Education: Harvard Law School, Cambridge, Mass., J.D. cum laude, 1977; University of Illinois, Urbana, Illinois, Masters in Russian History, 1973; Masters in Library Science, 1970; Colorado State University, Ft. Collins, Colorado, B.A., Modern Languages, 1969.

Bar Admission: District of Columbia Court of Appeals, Supreme Court of the United States.

Honors and Memberships: Office of the General Counsel Exceptional Service Award, 1988; Health Care Financing Administrator's Citation, 1981; Federal Bar Association.

Margaret Jane Porter has been Chief Counsel, Food and Drug Division, Office of the General Counsel, Department of Health and Human Services since October 1989. Ms. Porter began her legal career in the Department in 1977, first serving as a staff attorney in the Health Care Financing and Human Development Division for six years, working on Medicare and Medicaid matters, then serving as Social Security Income Program Branch Chief from 1983–1986, then Deputy Chief Counsel for Social Security Programs from 1986–1989. Ms. Porter holds a law degree from Harvard.

BLOOD CONTAMINATION

Senator BURDICK. Senator Bumpers.

Senator BUMPERS. Thank you, Mr. Chairman.

Dr. Kessler, one of the things that has attracted the Nation's attention in the last 24 to 48 hours is the Portland, OR, apparently contaminated blood supply there.

Now is this process used in places like Portland overseen by FDA? I forget the name of the division within FDA.

Dr. KESSLER. Center for Biologics Evaluation and Research.

Senator BUMPERS. Yes.

Is that an indication that FDA has not exercised its oversight responsibilities in the blood banks?

Dr. KESSLER. Not at all, Senator. In fact, what it represents is the increased effort on the part of the agency.

Senator BUMPERS. Did FDA discover this?

Dr. KESSLER. Yes, sir; we have been in Portland over the last month, and what you are reading about in the newspapers is the result of our investigation.

Senator BUMPERS. Is that the Center for Biologics Evaluation and Research?

Dr. KESSLER. Yes, sir.

Senator BUMPERS. Now that center also has responsibility for the determination of hepatitis B; is that correct?

Dr. KESSLER. Yes, sir.

Senator BUMPERS. As well as the purity of the blood supply and so on; is that correct?

Dr. KESSLER. Yes, sir.

Senator BUMPERS. It also does vaccine evaluations, does it not?

Dr. KESSLER. Yes, sir.

Senator BUMPERS. Now how much increase are you asking for that center?

Dr. KESSLER. Fifty FTE's for blood. For vaccine, for the national vaccine program there is a 27-percent increase. That also includes, Senator, but an overall request in our enforcement areas for 30 additional field staff who will be conducting investigations like the one in Portland.

Senator BUMPERS. Do we have a numerical count of blood banks like the one in Portland that FDA is charged with the responsibility for overseeing?

Dr. KESSLER. Dr. Quinnan is here with us today. He is the Acting Director of the Center for Biologics Evaluation and Research. If I may, Senator, I would ask him to join us at the table.

Senator BUMPERS. Doctor, I would like to know the answer to that, and I would also like to know something about precisely how this works physically. How do you inspect these blood supplies?

BLOOD BANKS

Dr. QUINNAN. There are about 500 licensed blood banks and another 2,500 blood banks which are not licensed.

Senator BUMPERS. How many are licensed?

Dr. QUINNAN. About 500.

Senator BUMPERS. And how many not licensed?

Dr. QUINNAN. 2,500.

Senator BUMPERS. When you say licensed and unlicensed, what is the distinction?

Dr. QUINNAN. The distinction is if they are involved in the interstate shipment of blood they are required to be licensed by us. In either event, they are inspected and required to follow current good manufacturing practices.

Senator BUMPERS. Is there a more stringent requirement to be licensed?

Dr. QUINNAN. No, sir; it is just a different mechanism for regulation.

Senator BUMPERS. Well, why do we make a distinction between blood that is shipped in interstate commerce and blood that is not?

Dr. QUINNAN. It is simply a matter of which regulations and laws apply; where the authority is, sir, not the mechanisms used for the regulation.

BLOOD BANK OVERSIGHT

Senator BUMPERS. Is there distinction without a difference? Does everybody get the same treatments? Do all of them get the same FDA oversight?

Dr. QUINNAN. They all get FDA oversight, and they are all required to follow the same procedures. With regard to licensed facilities, FDA can suspend or revoke licenses.

Senator BUMPERS. Let me pursue that just two steps further.

One, do you feel secure that the request for the increase in personnel for this center is going to be adequate to oversee all of these blood banks?

Dr. QUINNAN. I think we will be able to continue overseeing the blood banks effectively with that increase in personnel.

Dr. KESSLER. Senator, if I may, the bottom line, whether it is blood or food, what the American people need is a very strong FDA field force, because what people do not recognize, we have experts in blood, but in general our field staff is very interchangeable. They are trained in a whole host of areas. Over the years, there has been an erosion of resources that have gone into the field.

With all the additional responsibility added on to the agency, I believe that the field got shortchanged. Last year this committee and the President's budget, and the President's budget this year, provide about two-thirds increase to enforcement; that builds a strong field force, and that means FDA is out there inspecting and surveying blood banks and food processing. It is a strong field force that is a large percentage of the 1992 request.

Senator BUMPERS. Dr. Kessler, in this oversight responsibility that you have, do you establish the procedures for testing the blood?

Dr. KESSLER. Yes, sir; that is our job. We do not test the blood. You are 100 percent correct, Senator. It is our job to set the quality assurance standards.

Senator BUMPERS. My next question is, how do you exercise oversight on making sure that the procedures and the techniques and so on that FDA has set up? How often do you go back to make sure that those things are being very meticulously adhered to?

Dr. KESSLER. We have recently increased our efforts. Dr. Quinnan can correct me, but I believe that over the last 12 months we have been in every blood bank in this country. Once per year.

Senator BUMPERS. Once per year at least?

Dr. KESSLER. Yes, sir; and if there are problems, we are back. That is a stepped-up effort, Senator, and as we step up that effort, whenever you look more you find more problems. I think that is what you are seeing. It is the result of an increased effort on our part to assure the American public that its blood supply is safe.

LABORATORY PERSONNEL

Senator BUMPERS. Yesterday I chaired a hearing in another subcommittee of Appropriations, Health and Human Services, and we heard 26 what we call public witnesses, people who just sort of come in and vent their spleen on different things.

One of the most cogent testimonies I heard yesterday was from a nurse who talked about the tremendous shortage of laboratory technicians in this country. I am reluctant to repeat it, but I think she said we had something like a 40,000-person shortage. I may be thinking about something else.

In any event, there is a tremendous shortage of laboratory technicians, and there is a shortage of training facilities for laboratory technicians.

Now does that go to this problem?

Dr. KESSLER. Senator, I ran a hospital in the Bronx. I was responsible for the laboratories there, and you were 100 percent correct. I am talking from my previous life. This country does face a shortage of skilled laboratory personnel.

The technology is advancing at a very fast rate, and I personally am concerned that the level of skills of people going into these jobs is not keeping up. The bottom line is certainly that training is very important. In that regard, FDA has a responsibility in blood banks because it is not solely a compliance function. It is not solely an enforcement effort.

Dr. Quinnan and the people in CBER are also working hard to keep pace with a rapidly changing industry—there are changes in blood banking every day. The number of new regulations, the number of new procedures in the last few years have increased dramatically. We have an obligation to help people out there comply and know how to comply. We have a very important educational role and a very important training role.

We also have an audit role, and the two are very different, but both are within the province of CBER, and we are working on both at the same time.

BLOOD SAFETY AND AIDS

Senator BUMPERS. Next question, how accurate are our tests of blood now for the determination of AIDS?

Dr. KESSLER. Increasingly accurate. Dr. Quinnan is the expert. Let me ask him to answer.

Senator BUMPERS. Go ahead, Doctor.

Dr. QUINNAN. No test is perfect. Our estimates are currently that the risk of HIV transmission by blood transfusion is approximately

1 in 100,000. Blood is not perfectly safe and should only be used when it is really needed for life-threatening conditions.

Senator BUMPERS. Let me interrupt you for just a moment now. Are you saying that out of every 100,000 transfusions 1 person is going to get infected under current procedures?

Dr. QUINNAN. That is possible, sir. That means that in about 99,999 cases out of every 100,000 that transmission of HIV infection is currently being prevented.

Senator BUMPERS. Are you saying 1 percent or 1 case out of 100,000?

Dr. QUINNAN. One case. That is a theoretical estimate. That is a risk level. It does not necessarily mean that is going to happen.

In the end, Senator, blood is a human product, and we all expect it to be 100 percent risk-free. But as long as it is a human product there is going to be some risk associated with it.

Senator BUMPERS. Dr. Kessler, let me just conclude that part of the question on that particular center on AIDS and the purity of the blood supply by saying this subcommittee, in my opinion, and I think the chairman would certainly agree, wants you to have whatever you need. As Dr. Quinnan said, nothing is perfect, and we do not expect perfection. We expect as close to it as you can get, as it can humanly possible get, and we will provide you with whatever resources you need.

This is a mammoth problem in this country. It is not going to go away during my lifetime or yours. We need to do the very best we can to assure the people of this country as to the purity of the blood supply. The bottom line is we want to provide you with the employees, the equipment, and everything else you need to give us the greatest assurance you can on this.

Mr. Chairman, am I taking——

Senator BURDICK. You are doing all right.

PERTUSSIS VACCINES

Senator BUMPERS. As I pointed out a moment ago, this center also does vaccine approvals. Now is it Lederle-Praxis? I think this is probably a foreign company that has an agreement working with Lederle.

Who are they?

OK, they are both American companies. They have applied sometime ago with FDA for approval of an acellular vaccine which is a booster DPT shot. Now in this country we normally give DPT shots, and we are talking about essentially pertussis. We discussed this a little bit in my office, Doctor, the other day when you came by.

If you do not know the answer to this, you can supply the answer in writing. There is nothing critical about it right now, but I just want to make this point for the record.

They applied for this booster to be given at 18 months and 5 years, I believe it is. Normally children take this pertussis shot at 2, 4, and 6 months, and then they take boosters at about 15 to 18 months and at 4 to 6 years. Incidentally, this is a Japanese vaccine. They have been using it in Japan for a very long time, and they have applied for an approval of an acellular pertussis vaccine to be used at 18-month and 5-year booster shot level.

Now you have a Vaccine and Related Biolcgicals Advisory Committee at FDA which has reviewed this application on two separate occasions, in July 1989 and January 1991. On both occasions, apparently that advisory committee unanimously supported approval of this vaccine. Yet, the FDA has not yet approved it to be used as a booster.

My question is, can you give me any reason for the delay, and, if there is no delay, if it is going through the regular channels, when can we expect a decision on it?

Dr. KESSLER. Senator, normally I personally stay away from individual product decisions. We discussed it in your office. I am a pediatrician, so I have given my fair share of DPT vaccines.

Let me tell you what I know, a little about the history in general of acellular pertussis vaccines, and then Dr. Quinnan can comment specifically on the advisory committee issues.

You are correct, the acellular vaccines have been used in Japan since 1981. There was a clinical trial held in Sweden in 1986, and that showed at least two such vaccines that were only partially effective in preventing pertussis.

Currently there is a large multicenter clinical trial of 13 candidate vaccines that are concluding phase two of the process and are going on to the last stage of phase three. Sites in which to conduct phase three are currently being sought. It probably will be in Europe in part because the disease is not very prevalent in the United States.

My understanding is that the phase three studies will begin around 1992, and at the earliest would be concluded in 1994. That is my general understanding of the problem.

Senator BUMPERS. Does anybody else want to comment on it?

Dr. QUINNAN. Yes; that is completely correct. Those studies are designed to look at the use of a vaccine for the total program, the five doses you referred to as opposed to the last two.

In regard to your question about the Lederle-Praxis product, you are correct that the pertussis component is manufactured in Japan. What is different is that that is taken by Lederle-Praxis and combined with other components that are manufactured here in the United States. What is under review at this point is largely looking at the effectiveness of that formulation with respect to its potency.

We would hope that we would be able to move forward with that quickly, but I am not at liberty to give you any specific timetable here in public.

Senator BUMPERS. Well, you are certainly within your rights not to because we are not trying to speed the process up unduly and maybe short-circuit something.

Dr. QUINNAN. I did not mean to be not forthcoming. I think the rules on what we can disclose in public are what I am referring to.

VACCINE COMPENSATION

Senator BUMPERS. My concern about that is our vaccine compensation program here is out of hand, as you know. We have had $2 to $4 billion in claims filed under this new vaccine compensation injury law.

While at one time we thought we had this whole problem solved of children who had these terrible reactions to the pertussis vaccine, at least the financial part of it solved.

JAPANESE VACCINES

The second part of the problem, of course, is trying to eliminate those reactions. Everybody has been working on this for a long time. It was my understanding that the Japanese vaccine was much, much better, had a much better rate so far as reactions were concerned than our own vaccine.

Is that true or not?

Dr. QUINNAN. The Japanese vaccine is superior with respect to certain types of reactions. The reactions that people are most concerned about such as the neurological reactions, we really do not have the information about that yet. So that theoretical risk has to be balanced against the potential for pertussis epidemics. Until we have the data which shows that it works in infants, which has not been tested in Japan, we do not know the answer to that question.

Senator BUMPERS. Do we have any data from the Japanese on what they have done with this vaccine in the last 10 years, what the neurological rate has been?

Dr. QUINNAN. No; we do not have an adequate data base from the passive surveillance mechanisms that are in place to be able to address that question.

Senator BUMPERS. It is going to continue to plague us, then?

Dr. QUINNAN. As I said, I hope we can move forward at least with the booster doses quickly. The FDA has been a very central part of a coordinated Public Health Service effort over many years to solve this problem, and we are going to continue to make it our highest priority in the vaccine area. This multicenter trial that has been described by Dr. Kessler is receiving the amount of attention it needs to make sure it has all the possibilities it can have of solving the problem.

VACCINE PRODUCT APPROVAL

Senator BUMPERS. Dr. Kessler, or any of you for that matter, how much growth has there been in the number of applications for vaccine product approval in the last, say, 5 years? Does the number of applications for vaccine approval continue to grow?

Dr. QUINNAN. It has approximately doubled in the last 5 years.

Senator BUMPERS. How are you doing so far as personnel are concerned in dealing with this?

Let me ask you one other question. This increase that Dr. Kessler has asked for for this particular center, is that mostly for blood supply guarantees, or does it also include additional personnel to deal with this increase in the number of vaccine product applications?

Dr. QUINNAN. One component of that was for vaccines. I believe the number was 27 FTE's.

Senator BUMPERS. The other was how much; how many in the other one?

Dr. QUINNAN. Fifty.

Senator BUMPERS. So we are talking about 77 total for that particular center; is that right?

Dr. QUINNAN. That is correct.

Senator BUMPERS. How about the average review time for product approval for the vaccine products? Has that gone up, down, or stayed the same?

Dr. QUINNAN. I do not have numbers on that available. I can get that for you, Senator.

Senator BUMPERS. OK.

[The information follows:]

VACCINE PRODUCT LICENSE APPLICATIONS APPROVED SINCE 1980

Vaccine/manufacturer	Time from receipt to approval (months)	Date approved
Rabies:		
Merieux	14	1980
Wyeth	62	1982
Mich. Dept. P.H. (absorbed)	93	1988
Average approval time	56	
Hepatitis B:		
Merck	31	1981
Merck (recombinant)	18	1986
SmithKline (recombinant)	21	1989
Average approval time	23	
Haemophilus b:		
Praxis	23	1985
Lederle	20	1985
Connaught Inc	23	1985
Connaught Inc (Diphtheria Toxin)	56	1987
Praxis (Diphtheria CRM197)	23	1988
Merck (Meningitis)	25	1989
Praxis (Dipth. CRM197 amend)	7	1990
Merck (Mening. amend.)	4	1990
Average approval time	23	
Poliovirus:		
Connaught Inc (inactive)	16	1987
Merieux (inactive)	93	1990
Average approval time	54	
Influenza: Evans Medical	18	1988
Typhoid Vaccine Live Oral: Swiss Serum	93	1989

NCTR

Senator BUMPERS. Mr. Chairman, I have a number of questions, some of them dealing with the National Center for Toxicological Research in my own State. We have spent 20 years building a world class center down there, and naturally I am rather paternalistic about it. I will submit those questions in writing to you, Dr. Kessler. You can take your time about answering them as long as you get them back to me before we mark up the bill.

Thank you, Mr. Chairman.

NUTRITION FOOD LABELING AND EDUCATION ACT

Senator BURDICK. The Nutrition Labeling and Education Act was just enacted. In general, what does the act require FDA to do? What is your timeframe for issuing regulations? What are you

doing to harmonize labeling policies with USDA on meat and poultry products?

You may answer those in any order you wish.

Dr. KESSLER. Mr. Chairman, the law that was passed by the Congress, the Secretary's initiative on food labeling that was begun 2 years ago, will result within the next 2 years in a fundamentally revised food label. We have an enormous opportunity to affect the public health by the changes that we will make over the next 2 years in food labeling: expanded listing of ingredients; expanded nutrition labeling; standardization of descriptor claims made about foods; and assuring that there is scientific evidence about health claims that are made for particular food products.

It is a very ambitious undertaking. We are already moving. We are well on track with regard to the initial aspects of implementing the statute, ingredient labeling, percent juice labeling, labeling of the top 20 raw fruits and vegetables. All that is on track, but there are some very difficult questions that we must deal with over the next 2 years.

Serving size, one of the most complicated issues: What is the right serving size for a bag of cookies? I have never yet limited myself to the serving size on any of these products.

Senator BUMPERS. That would vary, would it not, by appetite?

Dr. KESSLER. You know, you pick up a bag and it says serving size, one cookie. Then you have to calculate everything else based on one cookie. It is a very difficult question, and we need to give it our best shot; and, Mr. Chairman, we will.

The Nutrition Labeling Act is not simply limited over the next 2 years. There are many activities that will go into years beyond 1992 and 1993. It sets up a whole different mechanism for preemption for food standards and petitions for food standards. So it will take an enormous effort on the agency's part, but there is an enormous opportunity here to affect the health of the American public. There is a tremendous demand for this information. Consumers want it; the agency needs to make sure that the food industry provides it.

We are working closely with the Department of Agriculture. They are following our lead on many of the aspects within that Nutrition Labeling and Education Act of 1990.

Senator BUMPERS. Mr. Chairman, may I intervene for just a second?

Senator BURDICK. Of course.

Senator BUMPERS. When is the date for the full implementation of that law; do you know?

Dr. KESSLER. The statute is very specific. It calls for proposed rules in certain areas in November of this year and final rules by November of the next year.

SMALL BUSINESS CONCERNS AND FOOD LABELING

Senator BUMPERS. I do not mind telling you, I think the thrust of that legislation is just fine, but I have always had some concern about it just because of the magnitude of it. We are going to run into a real hornet's nest with that law before it is implemented, I can tell you. It has nothing to do with how desirable it is to keep the public informed of the fat content and all that sort of thing if

they are dieting, what they are eating; as you point out, a fairly simple thing, what is the serving size.

I am chairman of the Small Business Committee. We get a lot of mail on things that are going to adversely affect it. I would tell you, there are a lot of small food processors in this country that qualify as small business people, and, as I say, they are fairly sanguine about it, but they are also very apprehensive about it. They see nothing badly wrong with it, but they are just scared to death as to what it is going to cost them.

Some people who make products with very little labeling on it right now, quite frankly, are afraid they are going to be put out of business when they have to reveal what is in their product.

Of course, we will be watching the proposals as you give them and will probably hold an oversight hearing on the proposals before they are finalized in 1992, but I can tell you that bill really causes me considerable concern.

Just a comment, Mr. Chairman.

Senator SPECTER. Mr. Chairman, I wonder if I might submit some questions for the record, because I can stay no longer.

Senator BURDICK. You can submit them either orally or for the record.

Senator SPECTER. I will submit them for the record. Thank you.

TIME FOR IMPLEMENTATION OF FOOD LABELING STATUTE

Senator BURDICK. What is the time period on the comment on food labeling? What period of time?

Dr. KESSLER. Mr. Chairman, we have broken down the statute into something like 12 different regulations that we need to issue. It is a mammoth undertaking, and we will follow the notice and comment rulemaking on each one of them. Each one is scheduled. You should see the giant charts in my office. In order to undertake this project, each one will have the appropriate notice and comment rulemaking that the APA requires.

Margaret Porter, who is our General Counsel, may wish to comment.

Senator BURDICK. But there is no timeframe at the present time you can give us?

Dr. KESSLER. I would be happy to submit those.

[The information follows:]

Nutrition Labeling Document	Anticipated Publication	Publication	Comment Period
Notice-Close Comment Period/Plan NLEA		01/11/91	No comment period on this notice
Notice-Service Size Public Meeting		02/26/91	03/28/91
Notice on Petitions		03/14/91	05/13/91
Notice-Health Message Request for Data		03/14/91	04/29/91
Notice-Public Meeting for State Laws Study		03/28/91	05/30/91
Notice-Nutrition Label Format 1st Study	05/22/91*	05/20/91	07/05/91
Notice-Results of State Laws Study	08/08/91*		
Notice of State Enforcement	10/01/91*		
Phase 1:			
Proposal-Ingredient Labeling	06/01/91*		45 days
Proposal-% Juice Labeling	06/01/91*		45 days
Proposal-Raw Fruit, Vege & Fish Guidelines	06/01/91*		45 days
Phase 2:			
Proposal-Mandatory Nutr Label/RDI/DRV	07/15/91*		60 days
Economic Analysis	07/15/91*		
Phase 3:			
Proposal-Adjectival Descriptors	11/08/91*		**
Proposal-Fat & Cholesterol Descriptors	11/08/91*		**
Proposal-Lite Butter	11/08/91*		**
Proposal-Serving Size	11/08/91*		**
Proposal-Preemption Petition Procedures	10/01/91*		**
Final-Ingredient Labeling (Section 7 only)	11/08/91*		**
Final-% Juice Labeling	11/08/91*		**
Final-Raw Fruit, Vege & Fish Guidelines	11/08/91*		**
Proposal: Health Messages, General	11/08/91*		**
Proposal: Folic Acid/Neutral Tube Defects	11/08/91*		**
Proposal: Zinc/Immune Function	11/08/91*		**
Proposal: Sodium/Hypertension	11/08/91*		**
Proposal: Omega-3/CHD	11/08/91*		**

Nutrition Labeling Document	Anticipated Publication	Publication	Comment Period
Proposal: Antioxidant Vitamins/Cancer	11/08/91*		**
Proposal: Calcium/Osteoporosis	11/08/91*		**
Proposal: Fiber/Cancer	11/08/91*		**
Proposal: Fiber/CHD	11/08/91*		**
Proposal: Lipids/Cancer	11/08/91*		**
Proposal: Lipids/CHD	11/08/91*		**
Proposal-Nutrition Label Format	04/15/92*		**
Final-Preemption Petition Procedures	05/08/92*		**
Final-Ingredient Labeling, non-Sect 7 issues	11/08/92*		**
Final-Mandatory Nutr Label, RDI/DRV	11/08/92*		**
Final-Adjectival Descriptors	11/08/92*		**
Final-Fat & Cholesterol Descriptors	11/08/92*		**
Final-Lite Butter	11/08/92*		**
Final-Serving Size	11/08/92*		**
Final-Health Messages - General	11/08/92*		**
Final-Folic Acid/Neural Tube Defects	11/08/92*		**
Final-Zinc/Immune Function	11/08/92*		**
Final-Sodium/Hypertension	11/08/92*		**
Final-Omega-3/CHD	11/08/92*		**
Final-Antioxidant Vitamins/Cancer	11/08/92*		**
Final-Calcium/Osteoporosis	11/08/92*		**
Final-Fiber/Cancer	11/08/92*		**
Final-Fiber/CHD	11/08/92*		**
Final-Lipids/Cancer	11/08/92*		**
Final-Lipids/CHD	11/08/92*		**
Proposal-Implement State Study	11/08/92*		**
Final-Implement State Study	05/08/93*		**

* Projected Date.

** A minimum comment period of 60 days will be provided following publication. A longer comment period may be provided if projects remain on schedule.

PUBLIC COMMENT ON FOOD LABELING PROPOSALS

Ms. PORTER. As Dr. Kessler pointed out, there are so many different proposals, different regulations in various stages. We have a timeframe which can be submitted for the record.

Senator BURDICK. Would that include the public comment period?

Ms. PORTER. Yes, sir; as Dr. Kessler indicated, all of these regulations will have a proposed stage, allow for public comment, and then a final stage, and then a certain period of time before they will become effective.

Senator BURDICK. Can you give me a horseback figure? Is it 6 months, 6 years? What?

Ms. PORTER. Some of the proposals will be published, we hope, as soon as this summer. All will be published this year. The mandatory nutrition labeling proposal is the major one scheduled for fiscal year 1992, early in the year.

Are you asking for how long the comment periods will be?

Senator BURDICK. Yes.

Ms. PORTER. Usually we provide a comment period of at least 60 days. For some of the more major rules, we provide a comment period that is longer. Given the short timeframes under the new law, we may only allow 45 days in some cases. We can supply for the record what our proposed periods are for each of the regulations.

Dr. KESSLER. Mr. Chairman, we have also sought public comment by other means. We just had a public meeting to solicit all views on the serving size issue, and that was a very productive meeting. So we are very serious about seeking public comment on all aspects of the statute.

Senator BUMPERS. Dr. Kessler, how difficult is it going to be for food processors to get the determinations? I mean, this is a scientific thing. You are going to have to put all those contents on the labeling. You mentioned cookies. A lot of people just buy a chocolate chip cookie, and there is nothing on there except the contents, salt, flour, sugar, blah, blah, blah. This, of course, is going to require a great deal more, and that means it is also going to require some laboratory testing to determine all of these ingredients, is it not?

ECONOMIC IMPACT FOOD LABELING STATUTE

Dr. KESSLER. Absolutely, Senator. You should know that we have undertaken and taken very seriously the economic analyses and the economic impact. We have several studies underway to look at the economic cost. Dr. Fred Shank, who is Director of the Center for Food Safety, is with us today. If I may, Senator, Dr. Shank is an eminent nutritionist, and he may wish to comment.

Dr. SHANK. You raise a very valid concern; that is, there is a short timeframe to come in compliance with a very comprehensive labeling initiative.

We will be doing everything we can to provide the assistance that is necessary and acting in a responsible manner so that we do not bring excessive economic consequences on the industry. We are very sensitive to that.

Senator BUMPERS. Do we have the resources in this country to handle this in a fairly short period of time? Do we have the labora-

tories and so on to determine precisely the kinds of things they are going to have to put on those labels?

Dr. KESSLER. Dr. Shank may wish to correct me, but my understanding, Senator, is there are a whole host of common data bases that have been developed over the years that small manufacturers can avail themselves of.

Dr. SHANK. That is absolutely correct, Dr. Kessler. We do not specify how the information will be derived from the label. As a matter of fact, a lot of it is based on data bases. If we were to enter into a dispute, we will determine the proper information based on an approved data base or go into a laboratory ourselves and do that analysis.

I think it is important to realize what that bill also provided relative to fresh fruits and vegetables and fish. There, we are establishing the guidelines. We intend to work from data bases in these regards. We will be working with industry on these very values that will go on the label. So there is another area where we will be providing assistance, intending to minimize the economic consequences.

Senator BUMPERS. Thank you very much. As long as you are aware of it, then obviously you are going to do everything you can to accommodate those economic concerns the business community has out there. That is all I could ask.

Dr. KESSLER. Absolutely, Senator. We take your concern very seriously. The bottom line is the American public wants that information. We talk a lot about disease prevention and promotion, and certainly there is no better way to achieve that than for the American public to have that information and use that information wisely. We understand the cost associated with that, and we need to use some common sense, and we will.

SEAFOOD INSPECTION

Senator BURDICK. Who on the panel is handling seafood inspection?

Dr. KESSLER. Dr. Shank handles seafood inspections as Director of the Center for Food Safety, and his deputy is also here, who has prime responsibility. He may want to join us at the table. Dr. Douglas Archer.

Senator BURDICK. You are requesting an increase of $15 million for seafood surveillance, one-half of which is to be derived from user fees. Could you give me an overview of FDA's involvement in seafood inspection? Would you agree there is widespread agreement that our current seafood inspection services are inadequate? If so, how far will the $15 million increase go in alleviating these inadequacies? It is a three-part question.

Dr. ARCHER. Mr. Chairman, first, I do not think there is general agreement that the current inspection system is inadequate. In fact, the National Academy of Science report issued in January pointed out that we have an intricate network of inspection in this country to address a very intricate problem in a very complex industry. We realize that we have to inspect more frequently, but the academy was quick to point out that probably too great an increase in inspection frequency would not ensure the public health.

However, the $15 million increase will help us to establish that optimal frequency with which FDA will inspect and also that the States will inspect various parts of the seafood industry.

Senator BURDICK. What is FDA's total budget level for seafood surveillance in 1991 and 1992?

Dr. ARCHER. The total budget in 1991 would be 422 FTE's, or $35 million.

Senator BURDICK. Are there areas of seafood surveillance in which FDA is not currently involved where it should be?

Dr. ARCHER. There are areas throughout the chain. Again, going back to the National Academy of Science report, the key to seafood safety is at the point of catch, the waters, and FDA has certain jurisdictions regarding waters, but States have principal jurisdictions in their own harvest waters.

Also, vessels is another area that right now there is probably deficient inspection authority either for ourselves or for the National Marine Fishery Service.

Dr. KESSLER. Mr. Chairman, if I may add to that, when I look at the seafood issue I divide the problem really into two components: One, the processed fish issue, being in the fish processing plants; and two, policing the waters. In both areas FDA has responsibility.

With regard to the first, with regard to surveillance of processed fish plants, in the end it goes back to the issue which Senator Bumpers started with when he asked about blood, the surveillance issue. A strong field force that is out there is the same field force that is inspecting blood banks, that is inspecting fish processing plants, and strengthening the field force and correcting the erosion which this budget helps to do, the erosion of resources in that field force, will go a long way to assuring the safety of seafood.

But an equally important component is policing the waters. That is a mammoth undertaking. We need to do that jointly, and we need to work better with the States.

A lot of the $15 million goes to helping do that job better. Currently, I was in our Atlanta office, which takes care of the whole gulf and the southeast where a significant amount of our seafood comes from. We have only four seafood experts, four seafood people for that whole region. This $15 million will help add additional personnel to make sure that we work with the States in a cooperative fashion so that the waters can be policed better, so that we do not have bootlegging of illegal seafood from contaminated waters.

AIDS

Senator BURDICK. We will shift the scene now from seafood to AIDS. Your budget proposed a total increase of 14 percent for AIDS-related activity for a budget of $72 million. Of the increase, $2.8 million is for drug and biologic product evaluation.

From your experience in New York with the disease and now from what you have seen in FDA, what do you see as the not-too-distant future in terms of dealing with this dreadful disease? Anyone who wants to answer.

Dr. KESSLER. I would be happy to take the first shot at the question, Senator.

The most important thing that we do has to do with the philosophical underpinnings of the drug approval process. If there is a drug that will help people with AIDS, if it is effective we need to reach for the data and work with the manufacturers to make sure that the drug gets to market as soon as possible.

It used to be, Mr. Chairman, that FDA saw its role as keeping unsafe products off the market. The medical reviewer was really the person in between the drug company and the patient, and the job was to keep unsafe products off the market. I think AIDS has taught us a lot. It has taught us that our job at the agency is not only to keep unsafe products off the market but also to get safe products on the market.

I have asked the Director of our Center for Drug Evaluation and Research, Dr. Carl Peck, to also take the lead for the Antivirals Division while we search for a new permanent director to assure that the agency is moving with all deliberate speed. In fact, I think we are. Over the last year or so we have refined the doses, the indications, the pediatric issues with regard to AZT. We have approved erythropoietin for use in AZT-related anemia. We have approved a drug, fuconerzol, for use in the treatment and prevention of the infections that accompany patients who have AIDS. We are working very hard.

We have a massive undertaking right now with regard to DDI, to be able to assess it. We have over 300 volumes of data, and we have a very large team working with the company to assess that data to see whether that data demonstrates efficacy in the treatment of this disease.

Our efforts go well beyond just simply drug approval. The increase in blood that I asked for the administration has asked for. The blood safety initiative is a very integral part of our program. A little bit of our discussion on vaccine development, that is also where our efforts must lie.

So it is a combination of product review, blood safety, vaccine development and review and, I think, where we need to concentrate our efforts.

Senator BURDICK. I thank you very much, panel. We have another panel following you. Thank you.

Dr. KESSLER. Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator BURDICK. We have additional questions that will be in writing.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BURDICK

User Fees

QUESTION. You are proposing to collect $198 million in user fees in 1992 as part of FDA's budget. As you point out, this is not in line with what the Committee has directed in the past. It seems to me that user fees may be more acceptable to Congress and to the regulated industry if they were used to augment FDA's activities, for example, to quicken the approval of applications for new products.

However, when the level requested in appropriations is reduced and the user fees are proposed as a replacement for federal money, your argument that they are an appropriate means of improving the agency's capacity doesn't hold water. Over $150 million of the user fees you propose would simply be used for activities currently funded by federal appropriations.

How can you state that user fees show the Administration's commitment to increased appropriations for FDA when over 75 percent of the fees are replace appropriations, and in fact, the federal appropriation requested is reduced by $118 million?

ANSWER. You are correct that the President's budget proposes that substantially more be collected in user fees than just the increases proposed for FDA -- but I don't believe that fact detracts in any way from the Administration's support for increased spending authority for our agency. Rather, it is a reflection of the belief that those who derive benefits from Government services should have to reimburse the Government for the full costs of providing those services. Some of those costs are already being paid for by appropriations, and other costs are associated with program increases.

QUESTION. I am curious if FDA has considered any type of a voluntary user fee system that applicants might look on favorably if it meant a shorter review and approval process. I do not mean a system where an applicant simply pays to get faster consideration, but perhaps some system where applicants could pay a fee into a pot that benefitted all applicants in a particular group, for example. Do you think such a proposal could be effective? Would industry be interested in it?

ANSWER. Using FDA authorities, the Department of Commerce also operates a voluntary user fee program, wherein a seafood processor may put a seal on the

label of his product if he volunteers to participate in a special inspection program, and pays for it through user fees. A small percent of the seafood processors actually participates in that program.

I really believe that the only way any significant levels of revenue will raised is through a mandatory system of user fees that treats all similarly situated parties in a uniform and equitable way. That is what is being proposed.

QUESTION. Last year, both the Senate and House Committees directed you to submit a budget request based on current law. You have not responded to that directive and have again submitted a budget with proposed authorization language for user fees.

In the future, can we count on you to submit a budget based on current law with any legislative initiatives included separately?

ANSWER. FDA's budget goes through three separate offices before it is submitted to the Congress. During those reviews, managers at higher echelons, who have broader areas of authority and responsibility, must review FDA's priorities and request, and balance FDA's needs with those of other organizations for which they have responsibility. As Commissioner of Food and Drugs, I can only make assurances about the budget content and presentation I make to the Assistant Secretary for Health. I assure you that my submissions at that echelon will be based on current law, with any legislative initiatives included separately. The content of subsequent submissions to the Office of the Secretary, the Office of Management and Budget, and the Congress, are not within my sole authority to control.

Funding for AIDS

QUESTION: Your budget proposes a total increase of 14 percent for AIDS-related activity for a total budget of $72 million. Of the increase, $2.8 million is for drug and biologic product evaluation. Noting that you have over 350 investigational new drug applications for AIDS drugs and therapies, will this increase really be enough to keep up with the demand?

ANSWER: The increase being requested for FDA's AIDS program in fiscal year 1992 is as accurate an estimate as can be made based on the anticipated workload at current rate of growth. Should this workload turn out to be greater than the projection, the Committee
will be advised.

Pesticide Residue Monitoring Program

QUESTION. Last year, FDA testified that USDA's proposal for pesticide residue monitoring could duplicate FDA's current program in some ways. In our report, we directed you to coordinate with USDA to ensure the maximum results of a comprehensive food safety initiative. Have your concerns about duplication been alleviated? If not, why not? If so, how?

ANSWER. FDA and USDA are working closely together, along with EPA, to ensure that pesticide monitoring activities of FDA and USDA are complementary, not duplicative.

FDA is also moving forward with improvements in its enforcement monitoring efforts. We have recently received a contractor's report outlining the basics of a statistically-based sampling and analysis program which would enable the Agency to make statistically defensible statements about the tolerance violation rates for selected pesticides in selected commodities. Although FDA is currently considering the possibility, within resource constraints, of implementing some sampling based on this model, we must first assess the effect such an effort would have on our coverage of the food supply overall.

Operating Costs

QUESTION. Your testimony describes the program increases sought by FDA. However, you include an increase of $37,205,000 for non-program costs. $15,579,000 of that amount is not related to pay raises or personnel related costs.

Please explain these other operating costs.

ANSWER. These are basically the costs of inflation. I would be happy to submit a brief summary of them for the record. The information follows:

Other Expenses:	
Service and Supply Account	$ 799,000
Working Capital Fund	293,000
NIH Management Fund	653,000
Travel, supplies, contracts, equipment, etc.	13,834,000
Total Other Expenses	15,579,000

Food Safety

QUESTION. As part of its program of effective resource allocation, has the FDA considered increased flexibility in applying the Delaney Clause to foods? If so, what alternatives are under consideration? If not, why not?

ANSWER. Increased flexibility in applying the Delaney Clause would allow for more informed decisions but it will not contribute to more effective resource allocation; therefore, it cannot be considered as an option for improved resource allocation.

Situations where an additive is found to be carcinogenic in man or animals need to be evaluated carefully to determine whether the additive can be used safely under any circumstances. In fact, increased flexibility would require the agency to assess the risk and make a science-based safety decision rather than simply to prohibit use of a substance regardless of whether or not it is safe. Thus, a change in the Delaney Clause would not reduce the effort needed to evaluate safety. It would simply allow the agency to permit use of a carcinogenic additive that did not pose any meaningful risk.

QUESTION. In particular, has the FDA attempted to clarify application of the Delaney Clause to generally recognized as safe (GRAS) food ingredients?

ANSWER. Strictly speaking, the Delaney Clause applies only to food additives, color additives, and animal drugs. It is not expressly applicable to GRAS ingredients because they are not food additives within the meaning of section 201(s) of the Federal Food, Drug, and Cosmetic Act. This does not mean, however, that FDA would affirm as safe a GRAS ingredient that caused cancer in laboratory animals because, in most cases, such a situation would raise serious concerns about safety casting doubt on whether use of the ingredient is generally recognized as safe.

Generic Drugs

QUESTION. Dr. Kessler, I would hope that one of the lessons of the generic drug scandal is that an even-handed approach by FDA to all manufacturers is essential to avoid creating temptation to err in such a price competitive industry sector.

Would you agree?

ANSWER. Yes, I certainly do agree. Our top priority in the management of the generic drugs program is to put in place policies that will assure consistent, even-handed reviews and requirements. Some of the changes which have been effected are: the establishment of the Office of Generic Drugs to provide more oversight of the review process; the recruitment of a senior chemist to oversee the quality, consistency and fairness of reviews; a prohibition against unplanned drop-in visits by industry representatives; and the development and implementation of policies covering a range of topics including personnel, administrative, regulatory, and scientific topics to give a common direction to reviewers.

QUESTION. Criminal activity aside, factors such as uneven reviewer demands on an applicant from the Office of Generic Drugs, unevenly applied or unclear direction in areas such as stability testing requirements, scale-up and validation requirements add additional overhead costs. If criteria are not evenly applied to all manufacturers, it would seem that those that do comply with the more stringent quality measures are placed at a financial disadvantage to firms that do not adopt these measures.

What steps does FDA plan to take to ensure that all manufacturers of generic drugs clearly understand what FDA requires of them and to ensure that all manufacturers comply with the same requirements, thus creating an environment for fair and even competition?

ANSWER. The agency has undertaken a series of steps to communicate to industry the requirements necessary to create an environment for fair and even competition. For example:

o since May 1989, the agency has issued 30 Policy and Procedure Guides to improve ANDA quality (e.g., "Organization of an ANDA ..."), to ensure uniformity/fairness in ANDA reviews ("first in, first reviewed" policy), to ensure proper employee conduct, and to help describe the scientific requirements of an ANDA ("batch size requirements" policy);

o FDA has established a generic drugs docket for policy statements that the agency issues, and speeches that agency staff give to trade associations regarding human generic drugs. The docket also contains the issued policy and procedure guides. This docket ensures that this information is equally available to all interested persons on a timely basis.

o The Office of Generic Drugs now has a senior agency chemist oversee all chemistry reviews to assure they adhere to accurate and consistent standards and requirements.

o An Ombudsman has been appointed to investigate any allegations of unfairness made by those who we regulate. The Ombudsman is organizationally independent of our Center for Drug Evaluation. She reports directly to the Commissioner.

Taken together, these initiatives represent a significant and substantive effort to assure fairness in carrying out our regulatory responsibilities.

QUESTION. I understand that the rate of filing of additional new drug applications seeking approval to market generic drug products has fallen off considerably over the past year.

Is that true? If so, could you document the decline?

ANSWER. Yes, the rate of filing of ANDAs has fallen off considerably over the past year. In FY 1989, 796 original ANDAs were received by the agency for review. In FY 1990, 352 original ANDAs were received.

QUESTION. Is this a result of your investigations or is it because the industry no longer understands what it is that FDA requires of it in submitting such applications?

ANSWER. The decrease in the number of ANDAs submitted for review is the result of both industry uncertainty regarding review policies and the fact that applications are now receiving closer scrutiny by the agency.

QUESTION. How does FDA propose to inform industry of its evolving requirements?

ANSWER. The agency has issued 30 policy and procedure guides since May 1989, to help industry to understand the scientific requirements of an ANDA. The agency has also established a generic drugs docket for FDA policy statements and speeches regarding human generic drugs. The docket also contains the issued policy and procedure guides. The docket ensures that this information is equally available to all interested persons on a timely basis.

Field and Center Operations

QUESTION. I have been made aware of concern in the health care product industry that in FDA's rush for greater enforcement, the traditional checks and balances between FDA field operations and the Centers have been diminished. Allegedly, field operations can now aggressively pursue what in its own judgment is non-compliance without the in depth review by the Centers, and the Centers cannot exercise much control over the judgment of the field activities.

Could you please provide me with a description of what control the Centers now have over field inspection operations, and how a proper balance will be maintained between the two entities?

ANSWER. The Agency is undertaking a number of initiatives to streamline the enforcement processes. The centers have vigorously participated in the streamlining process, and only those enforcement activities that the centers are comfortable in delegating to the field offices would be undertaken. It is our intention that checks and balances between centers and field offices are not diminished by the streamlining process. In fact, we are encouraging more and earlier interaction and cooperation between the districts and the centers so as to keep all involved parties adequately informed on developing enforcement initiatives and on the current status of various firms. We believe this is a critical element to the success of the enforcement initiatives, and the districts are expected to develop and maintain even more direct contact with the centers at all levels to assure that prompt, correct, and effective enforcement action is taken. The streamlined enforcement process would also require that the centers be committed to provide prompt technical and regulatory support needed by the districts to take a just and quality enforcement action.

Review Time for NDAs and ANDAs

QUESTION. In recent years, one of the major complaints about FDA is the time it takes to get a product approved. In many cases, statutory time limits are not met.

How long does it currently take for approval of NDAs and ANDAs in the various areas?

ANSWER. The average approval time in calendar year 1990 for NDAs was 30 months and 26.4 months for ANDAs. However, both NDAs and ANDAs typically go through several review cycles before reaching final

approval. Below are two charts which reflect the average approval process time for NDAs and ANDAs. Note, the NDAs chart is based on ten years and the ANDAs chart is based on five years of information.

ANDA information is only available for the past five years because 1985 was the first year after the enactment of the Drug Price Competition and Patent Term Restoration Act of 1984, which permitted generic marketing of new drugs approved after 1962. The increase in average review time between 1988 and 1990 reflects the impact of the generic drug scandal which surfaced in 1988.

Mean and Median Approval Times (in months) for NDAs

Calendar Year	Mean	Median	Total No. of Approvals	No. of "5C" Approvals	Total "non-5C" Approvals
1981	24.5	19.9	96	42	54
1982	22.4	17.5	116	59	57
1983	20.9	14.7	94	53	41
1984	24.2	18.7	142	75	67
1985	24.9	22.1	100	35	65
1986	27.9	21.6	98	37	61
1987	29.0	27.0	68	16	52
1988	28.9	21.8	67	25	42
1989	30.9	25.9	87	19	68
1990	30.0	25.2	64	2	62

*The number of "5C" (already marketed, "me too") drugs reviewed and approved in the Offices of Drug Evaluation (ODE) have decreased since 1984 with the passage of the Waxman - Hatch Amendments to the Act (The Drug Price Competition and Patent Term Restoration Act of 1984). The majority of these "5C" drugs are now reviewed as Abbreviated New Drug Applications (ANDAs) in The Offices of Generic Drugs, leaving the more complex drugs requiring clinical and pharmacology reviews in ODE.

Approving a large number of 5C drugs would have contributed to reducing approval times.

Mean and Median Approval Times (in months) for New Molecular Entities ("1s")

Calendar Year	Mean	Median	Number of Approvals
1981	31.2	26.2	27
1982	28.8	21.2	28
1983	28.5	26.9	14
1984	39.1	31.1	22

Calendar Year	Mean	Median	Number of Approvals
1985	31.9	29.8	30
1986	34.1	32.9	20
1987	32.3	29.9	21
1988	31.3	27.2	20
1989	32.5	29.3	23
1990	27.7	24.3	23

Average ANDA Review Time

Fiscal Year	Average Review Time (Months)
1986	14.7
1987	11.5
1988	16.0
1989	20.5
1990	26.4

QUESTION. How do these compare with statutory limits?

ANSWER. The average review times for NDAs and ANDAs exceeds the statutory limit of 180 days. However, it is important to understand that these are average review times and do not apply to all NDAs or ANDAs.

QUESTION. How do you plan to improve this record?

ANSWER. The agency has taken a number of steps to reduce the NDA and ANDA review times. We have sought to reduce the number of review cycles by encouraging sponsors to submit more complete and accurate submissions initially. We have communicated to sponsors the results of an agency study which identifies common ANDA deficiencies. Policy and procedure guidelines have been issued to sponsors to improve the quality of ANDAs. The biggest single factor in "FDA time" is the backlog of NDAs and ANDAs awaiting review. We are aggressively recruiting reviewers; taking a proactive role in the development of clinic trials before the NDAs are submitted; working to increase the use of computer-assisted new drug applications (CANDAs); and have established a reviewer training branch to reduce the backlog of pending overdue NDAs and ANDAs. The resources we have requested are essential to the reduction of the NDA and ANDA review time. As an interim measure, we have drawn on resources in other areas of drug review to assist in NDA and ANDA review. I believe these steps will be effective in reducing the NDA and ANDA review time. We will continue to monitor the situation.

Orphan Products

QUESTION: There is considerable interest in your orphan products grants and program. What is the current funding level for 1991 and what is proposed for 1992?

ANSWER: The current funding level for fiscal year 1991 is $11,515,000, including $8,770,000 in extramural grants and contracts. FDA has estimated a funding level of $11,975,000 in fiscal year 1992, including $9,120,000 for the grant program.

QUESTION: Please provide a summary of the number of grants, in what amounts, and for what purposes, provided in 1990, 1991, and proposed for 1992.

ANSWER: Twenty-eight grants were awarded in 1990. It is estimated that 30 new grants will be funded in 1991, and 31 new grants will be awarded in 1992.

NEW ORPHAN PRODUCT GRANT AWARDS - 1990

Stephen S. Arnon, M.D.
California Department of Health Services
Berkeley, California
Clinical Trial of Human Botulism Immune Globulin (BIG)
$115,307

John Robert Bach, M.D.
University of Medicine and Dentistry of New Jersey
Newark, New Jersey
Mechanical exsufflation for "Non-Trached" Ventilator Users
$51,222

Warren L. Beeken, M.D.
University of Vermont
Burlington, Vermont
Controlled Trial of 4-ASA in Ulcerative Colitis
$68,512

Walter A. Blattler, Ph.D.
ImmunoGen, Inc.
Cambridge, Massachusetts
immunotherapy of Myeloid Leukemias with Anti-My9-blocked Ricin Immunoconjugate
$100,000

Gary M. Brittenham, M.D.
Cleveland Metropolitan General Hospital
Cleveland, Ohio
Pharmacokinetics of Oral PHI Chelation in Iron Overload
$125,748

Mary E. Bussey, M.D.
University of Nebraska Medical Center
Omaha, Nebraska
Pharmacodynamics of Inotropic Drugs in Premature Neonates
$56,806

Jean-Claude Bystryn, M.D.
New York University Medical Center
New York, New York
Clinical Trial of a Polyvalent Antigen Vaccine for Melanoma
$163,333

John D. Conger, M.D.
University of Colorado
Denver, Colorado
Efficacy of Atrial Natriuretic Peptide (hANP4-28) in Acute Renal Failure
$94,038

Robert J. Desnick, Ph.D., M.D.
Mount Sinai School of Medicine
New York, New York
Therapy for Fabry Disease with Alpha-Galactosidase A
$159,702

Marc A. Goshko
Lemmon Company
Sellersville, Pennsylvania
Copolymer 1 Treatment of Exacerbating-Remitting MS
$93,281

Janet E. Hall, M.D.
Massachusetts General Hospital
Boston, Massachusetts
Pulsatile GnRH in Anovulatory Infertility
$165,012

Roberta Lynn Hayes, Ph.D.
New York University Medical Center
New York, New York
Phase I/II: IL-2/LAK for Primary, Pediatric Brain Tumors
$153,702

Paul A. Hensleigh, M.D., Ph.D.
Institute for Medical Research
San Jose, California
Acyclovir for First Episode Genital Herpes in Pregnancy
$140,703

Marilyn Horowitz, Ph.D.
The New York Blood Center
New York, New York
Fibronectin Eyedrops in Non-Healing Corneal Ulcers
$106,226

Amitabha Mazumder, M.D.
University of Southern California
Los Angeles, California
IL2 Activated Transplant for Refractory Lymphomas
$159,271

Hugo W. Moser, M.D.
Kennedy Research Institute, Inc.
Baltimore, Maryland
Studies of Glyceryl Trierucate Therapy of Adrenoleukodystrophy
$149,545

Michael Robert Pranzatelli, M.D.
Children's Hospital National Medical Center
Washington, D.C.
The Efficacy and Safety of L-5-Hydroxytryptophan in Pediatric Myoclonic Disorders
$121,727

Donald B. Sanders, M.D.
Duke University
Durham, North Carolina
3,4-DAP in Myasthenia Gravis and Lambert-Eaton Syndrome
$78,288

Jerry Allen Schneider, M.D.
University of California, San Diego
La Jolla, California
Use of Cysteamine in Cystinosis
$149,000

Sally Schuette, Ph.D.
University of Chicago
Chicago, Illinois
Mg Diglycine Chelate Bioavailability in Crohn's Patients
$141,062

Robert Virgil Shannon, Ph.D.
House Ear Institute
Los Angeles, California
Auditory Brainstem Implant
$114,200

Thomas J. Smith, M.D.
University of Kentucky Research Foundation
Lexington, Kentucky
Linear Release Ganciclovir in AIDS Related CMV Retinitis
$122,317

David S. Strayer, M.D., Ph.D.
The University of Texas Health Science Center
Medical School at Houston
Houston, Texas
Surfactants Used for RDA Therapy: Analysis of Immunotoxicity
$102,947

Rup Tandan, M.D., M.R.C.P.
University of Vermont
Burlington, Vermont
L-threonine and Branched Chain Amino Acids in ALS
$152,600

Walter Raymond Thayer, M.D.
Rhode Island Hospital
Providence, Rhode Island
Rifabutin and Streptomycin in Severe Crohn's Disease
$120,365

Raymond Paul Warrell, Jr., M.D.
Memorial Hospital for Cancer and Allied Diseases
New York, New York
All-Trans Retinoic Acid in Acute Promyelocytic Leukemia
$93,857

Randall Wayne Whitcomb, M.D.
Massachusetts General Hospital
Boston, Massachusetts
Induction of Spermatogenesis Using Pulsatile GnRH
$161,280

Robert B. Zurier, M.D.
University of Pennsylvania
Philadelphia, Pennsylvania
Treatment of Rheumatoid Arthritis with Borage Seed Oil
$133,787

PET

QUESTION. I understand the positron emission tomography (PET) is a relatively new imaging technique used in the health field. Apparently, FDA does not currently regulate PET but has been giving indications that it may do so in the future. What is the FDA's policy with regard to PET? Will you regulate it? If so, in what form? If no decision has been made, when will FDA make its position known with regard to regulation?

ANSWER. Before responding to these questions, a brief remark on the issue of Medicare reimbursement of positron emission tomography (PET) as it relates to regulation of PET drugs is appropriate. In the case

of FDA's regulation of these drugs, FDA's approval is considered a prerequisite for Medicare reimbursement. However, in the absence of FDA regulation and approval, the Health Care Finance Administration could, perhaps, seek other means of assessing the medical justification for reimbursing charges for PET.

Positron emission tomography (PET) an imaging modality has been available for several years as a medical research tool. However, FDA is considering whether to regulate positron emission tomography (PET) radio-pharmaceutical drugs as "new drugs" within the meaning of the Food, Drug, and Cosmetic Act. The Agency, thus, may require the submission of new drug applications for commercial distribution of these drugs. Last year the agency approved Cardiogen, a generator-produced rubidium Rb PET radiopharmaceutical drug. Most PET materials require cycloto-produced radionuclides with short half-lives. The short radioactive half-life of most PET drugs results in the logistical necessity of producing them in a clinical environment for prompt administration to patients, a practice that distinguishes them from other radiopharmaceutical drugs. That distinction, however, does not require that PET drugs be regulated as something other than new radio-pharmaceutical drugs, whether or not the pharmacy preparing the PET product plans to use it beyond the institution in which it is located. We are exploring innovative approaches to regulating PET products because of the uniqueness of PET drug production.

A privately-operated organization, the Institute for Clinical PET (ICP), has been organized to develop documents containing the medical and scientific data necessary to support new drug approval (evidence of effectiveness, safety, proper preparation) of each PET drug should this be the regulatory route that FDA chooses.

Drug Classification System

QUESTION. I understand that considerable attention was given to the FDA drug classification system during the consideration of drug rebates for medicaid in last year's reconciliation bill. Please explain the FDA drug classification system.

ANSWER. The IND/NDA classification system provides a way of describing drug applications upon initial receipt and throughout the review process, and a basis to set priorities for their review. There are two parts of a drug classification, the chemical classification and the therapeutic classification.

The chemical classification is a fixed, objective rating that describes the relationship to already marketed or approved drugs in the U.S. The therapeutic classification is a subjective rating that describes FDA's estimate during the drug's IND development, of its potential therapeutic value and, finally, its assessment, at the time of NDA approval, of the drug product's therapeutic value. The review priority given to an application is based on the drug product's therapeutic classification. An explanation of the classification system follows.

Chemical Type:

Type 1 - New molecular entity - A drug for which the active moiety (either as the unmodified base [parent] compound or an ester, salt, clathrate, or other noncovalent derivative of the base [parent] compound) has not been previously marketed in the United States for use in a drug product, either as a single ingredient or as part of a combination productor as part of a mixture of stereoisomers. The term "new molecular entity" is equivalent to "new chemical entity".

Type 2 - New ester, new salt, or other noncovalent derivative - A drug for which the active moiety has been previously marketed in the United States, but for which the particular ester, salt, clathrate, or other noncovalent derivative or the unmodified base (parent) compound is not yet marketed in the United States, either as a single ingredient or as part of a combination product.

A drug previously marketed only as a part of a combination or mixture of stereoisomers will also be considered a Type 2 drug.

Type 3 - New formulation - the compound is marketed in the United States by the same or another manufacturer, but the particular dosage form or formulation is not.

Type 4 - New combination - the product contains two or more compounds that have not been previously marketed together in a drug product in the United States by any manufacturer.

Type 5 - Already marketed drug product - the product duplicates a drug product (same active moiety, same salt, same formulation or same

combination) already marketed in the United States by another firm.

Type 6 - Already marketed drug product by the same firm - the product adds a new indication for a drug product already marketed in the United States by the same firm.

Type 7 - Already marketed drug product without an approved NDA - the product has received the first approved NDA for a drug product that has been or is being marketed without an approved NDA.

Note: These types are not mutually exclusive. For instance, a new combination (Type 4) may also contain a new molecular entity (Type 1) or a new salt (Type 2). In such cases, both numbers are included in the overall classification number for each drug. For example, a new molecular entity representing an important therapeutic gain would be classified 1A. If the entity were also in a new combination, it would be classified 1,4A.

Therapeutic Potential:

Type A - Important Therapeutic Gain - The drug may provide effective therapy or diagnosis for a disease not adequately treated or diagnosed by any marketed drug, or provide improved treatment of a disease through improved effectiveness or safety (including decreased abuse potential).

Type B - Modest Therapeutic Gain - The drug has a modest, but real, potential advantage over other available marketed drugs - e.g., greater patient convenience, elimination of a significant adverse reaction, less frequent dosage schedule, useful in specific subpopulation of those with disease (e.g., those allergic to other available drugs), etc.

Type C - Little or No Therapeutic Gain - The drug essentially duplicates in medical importance and therapeutic usage one or more already marketed drugs.

Type AA - Top priority review - This priority code was implemented to fast track and monitor through the drug review process drugs being developed for AIDS and AIDS-related opportunistic infections.

Type V - Designated Orphan Drug - The sponsor of the drug has officially requested and received

orphan designation pursuant to section 526 of the Orphan Drug Act (Public Law 97-414 as amended).

Note: Types A, B and C are mutually exclusive. Only one of these letters may be included in the overall classification number. The other types are not mutually exclusive. Other auxiliary codes are not included in the Report.

QUESTION. Do you believe that this drug classification system is an appropriate instrument for measuring the potential clinical contribution of new drugs?

ANSWER. Yes, for the purpose of setting priorities in the review efforts and for assessing the drug's known new contribution to the therapeutic armamentarium at the time of approval. The classification in no way should be used to suggest that any drugs approved are inferior or not valuable.

QUESTION. Is there any flexibility in the system allowing for the reclassification of drug applications during the approval process if factors so warrant?

ANSWER. Yes. The therapeutic classification of a new drug may change during the drug development (IND) phase as new information becomes available. It may also change during the course of the review of a marketing application (NDA). On the other hand, the chemical classification changes only if another drug product containing the same chemical entity is approved first. When an NDA is approved, it is given its final chemical and therapeutic classification, which does not thereafter change.

Conditional Approval of Drugs

QUESTION. What is the status of FDA allowing "conditional approval" of drugs?

ANSWER. A 1979 Senate bill contained a "conditional approval" provision that would have permitted a significant departure from current approval standards for new "breakthrough" drugs. FDA is not considering reviving that provision, but FDA is exploring whether approval under current law might be accelerated for some important new drugs where certain postmarketing conditions could be imposed. That exploration is focused on two areas: 1) where a "surrogate" endpoint, such as tumor shrinkage in cancer patients, is strongly suggestive that the drug is effective against that condition and definitive

studies of the clinical endpoint will be carried out after marketing; and 2) where an effective but highly toxic drug can be safely used only if postmarketing restrictions are placed on its distribution (for example, only prescribed in conjunction with laboratory testing to assure vigilance against the drug's toxicity).

QUESTION. Are you planning to use it widely, or do you have specific diseases or drugs for which it would be used?

ANSWER. If the conditional approval procedures that FDA is exploring are implemented, they would almost certainly be limited to a small number of drugs each year, such as drugs for serious or life-threatening illnesses for which no satisfactory alternative therapy exists. These might include drugs to treat such diseases as cancer, AIDS, Alzheimer's Disease, and other serious conditions.

Buildings and Facilities

QUESTION. Please provide for the record the current status of your facilities consolidation proposal. Include the time frame for implementing it, the projected cost, and activities in 1991 and proposed for 1992.

ANSWER. Preliminary planning for the consolidation of FDA programs in the Washington, D.C. metropolitan area began in earnest on March 22, 1990 when the Agency transferred funds to the General Services Administration (GSA) for preparation of a Prospectus Development Study (PDS) that would define the scope of the project and it's cost. On July 2, 1990, GSA contracted with the firm of Hill International for the preparation of the PDS.

The firm of Leo T. Daly was engaged as a consultant by Hill International and began work on the study shortly thereafter. The GSA schedule called for completion of the study by December 14, 1990. Interviews were scheduled with FDA program managers and questionnaires were developed to solicit information concerning staffing, space requirements, design criteria, etc.

On October 27, 1990, shortly before the PDS was to be completed, Congress passed PL 101-635 (The FDA Revitalization Act) which not only authorized the consolidation project but also instructed the Secretary of Health and Human Services, after consultation with the GSA Administration or, to proceed with the acquisition of the needed land and

facilities. The President signed the bill into law on November 28, 1990.

The GSA study (PDS) was completed on schedule on December 14, 1990. The PDS revealed that FDA's Washington area staffing for the year 2000 was projected to be about 8,300 employees, and that nearly 3,200,000 square feet of occupiable space would be needed to accommodate the scientific and administrative functions of the Agency at that time. Because the estimated cost of the state-of-the-art facilities envisioned was in excess of $750 million, a phased development strategy was devised. With the addition of cost escalation to the mid-point of construction and estimated land costs added-in, the total project cost was estimated to range between $1.2 and $1.354 billion. A copy of this study is submitted herewith for the record.

[Clerk's note: The study is available in the subcommittee files.]

The phases of construction identified in the PDS are as follows:

Phase	Program Element	Commence Design & Construction	Building Occupancy
I	Office of Comm. & Ctr. for Food Safety & Applied Nutrition	FY 1993	FY 1997
II	Ctr. for Devices & Rad. Health and Ctr. for Vet. Medicine	FY 1994	FY 1998
III	Ctr. Drug Eval. & Research	FY 1995	FY 1999
IV	Ctr. for Biologics Eval. & Research	FY 1996	FY 2000

Obviously, before any design work could begin in earnest, a site would have to be acquired and detailed programming documents would have to be developed to work out the design requirements for the architect. During the period when the GSA study was underway, FDA officials contacted the Offices of Economic Development in both Prince George's and Montgomery Counties in Maryland in order to develop a preliminary listing of potential sites where the consolidation could be placed. These two counties were chosen because that is where approximately 75 percent of FDA's Washington area employees reside. Some 18 sites were identified in this preliminary survey, but a number of them were considered questionable because

they failed to meet minimum acreage requirements, determined by GSA to be at least 300 to 450 acres, depending on topography, soil conditions, wetlands areas, etc.

The development of detailed program documents for the four phases of construction began in mid January, 1-23 1991, and is expected to be completed by mid June, 1992. The Program of Requirements for the first phase of construction, covering space needs of the Office of the Commissioner and related functions as well as the Center for Food Safety and Applied Nutrition will be completed by September 30, 1991. Because the programming effort is so well along,FDA will be in a position to begin to acquire a site and design Phase I in FY 1992, even though the timetable in the Prospectus Development Study does not call for them until FY 1993.

The funding schedule developed in the GSA study is as follows:

Fiscal Year	Activity	Amount
1993	Site Acquisition	$185 million
	Phase I Design	15 million
1994	Phase I Const'n.	310 million
	Phase II Design	10 million
1995	Phase II Const'n.	200 million
	Phase III Design	13 million
1996	Phase III Const'n.	275 million
	Phase IV Design	16 million
1997	Phase IV Const'n.	330 million
Total estimated cost.....		1,354 million

AIDS Facility

QUESTION. What is the current status of the AIDS facility? Is the design complete? When will you break ground? What is the current estimated cost? Are there any problems in moving forward?

ANSWER. Significant progress has been made since last year's budget hearings. The Program of Requirements, POR, for Building 29B was completed on October 9, 1990, and a design contract was awarded to The Kling/Lindquist Partnership, TKLP, of Philadelphia, PA on February 6, 1991. The TKLP firm started immediately thereafter and has put a great deal of effort into their work so that on April 23, 1991 the firm was able to submit 30 percent complete

drawings and specifications. In order to accelerate construction, the design phase for Building 29B has been structured to produce two bid packages for this project. The first phase of design which will cover site work, foundations, below grade utilities, the structural frame, roofing, etc., is expected to be complete by early October, 1991. The second phase of design which will cover exterior walls, mechanical and electrical systems, plumbing, interior finishes, partitions, etc., is expected to be complete by June, 1992.

Construction on Phase I design elements should commence by late November, 1991. Phase II construction should commence not later than early September, 1992 and should be complete by the spring of 1994.

FDA foresees no further delays and feels confident that the schedule outlined can and will be maintained.

The cost estimate has not changed since the last budget hearings. The original allocation of $25 million had to be augmented by $3.5 million from FDA's FY 1990 appropriation to cover the revised cost estimate for the project. The architect's latest cost estimate for the project indicates that the facility can be designed and constructed within the currently available $28.5 million.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

Changing role of NCTR

QUESTION: We have worked for two decades to build an internationally recognized research facility in Arkansas. I am concerned that decisions about changing the role of NCTR might be made hastily, without considering precisely what NCTR contributes to FDA, and long-term health research.

That concern stems, in part, from a report quoting Dr. Edwards, the chairman of the FDA Blue Ribbon Panel, as saying he would like "someone to point out any practical benefits from NCTR." Do I misunderstand that the model used for assessing the risks of toxic chemicals in FDA, EPA, and other regulatory agencies was developed at NCTR; that scientists there have developed ways to measure the risks of nerve damage that comes from exposure to chemicals; and that thousands of important research documents revealing how chemicals harm us have all come from NCTR?

Can you assure us that you will study this matter carefully and report conclusions about the role of

NCTR to this Subcommittee prior to making major changes?

ANSWER: FDA's National Center for Toxicological Research has made many important scientific contributions, including those you mentioned. FDA is reexamining the role of NCTR within this regulatory Agency. We believe that the overall public health mission of the Agency might better be served if more applied, regulatory-based research was conducted at NCTR. This redirection is intended to make the most effective use of FDA's available resources in addressing public health and safety responsibilities that are set forth in the Federal Food, Drug and Cosmetic Acts. We wish to assure you that NCTR is considered an important part of FDA. Any further substantive changes in the role of NCTR will be promptly reported to the subcommittee.

Federal Technology Transfer Act

QUESTION: The Edwards panel has complained about a lack of creativity within the agency. Some of my business constituents have complained that the people at NCTR are eager to discuss creative relationships under the Federal Technology Transfer Act, but that your staff in Washington drag their feet and are not supportive of these initiatives.

With the strong signals coming from the Administration to use the Federal Technology Transfer Act as a tool to enhance competitiveness, I am concerned that the FDA might view itself as independent of this effort. What has the Agency accomplished under the Technology Transfer Act, and what do you plan to do to assure that the agency is more active in the future?

ANSWER: FDA is continuing its efforts to implement fully the Federal Technology Transfer Act (FTTA) throughout the Agency, including all Centers and the field offices. The Agency has had to deal with certain issues that have an impact on FDA in a unique way because of its regulatory obligations. In some instances, the FDA's regulatory and enforcement obligations with respect to entities in the business community have required the Agency to carefully review proposals under the Federal Technology Transfer Act to prevent any impairment of, or loss of credibility with respect to, the Agency's underlying enforcement obligations. FDA has done this with the intent of finding ways to fulfill the Agency's enforcement and regulatory obligations at the same time participating in technology transfer. It is believed that significant progress has been made in this respect.

Before discussing specific accomplishments, a brief explanation of FDA's implementation strategy is appropriate. Soon after the FTTA became law, FDA created a working group known as the FTTA Task Force to propose a strategy for implementing it. This group has representatives from each of the Centers, the Office of the General Counsel, the Division of Ethics and Program Integrity, and other staff offices in the Office of the Commissioner. A formal process was approved by former FDA Commissioner Young for the Centers and the Office of the Commissioner to follow in entering into Cooperative Research and Development Agreements (CRDAs). The members of the Task Force also serve as FTTA liaisons for each of their organizations, serving as contact points for questions, inquiries, and information from inside and outside FDA regarding technology transfer. They are identified by name, organization, and telephone number in information packages made available at meetings and conferences to promote interest in technology transfer activities.

As part of an effort to promote interest, FDA has participated in past PHS Technology Transfer forums and the March 1990 Pharmaceutical Manufacturers Association (PMA)/NIH Technology Transfer Conference, and other technology transfer conferences. FDA has provided the listing of those FDA patents that are available for commercialization to forum participants. FDA scientists have displayed abstracts during the forums and FDA representatives have been present to answer questions and provide information.

FDA has held individual training/orientation sessions for each of the Centers (which we have identified as Laboratories under the FTTA), several field laboratories, and the staff of the Office of the General Counsel, Food and Drug Division. These sessions, which were designed and structured to promote FDA participation under the FTTA, include an overview of the FTTA, implementation in FDA, CRADAs, conflict of interest policies, and the patent process, and the licensing of intellectual properties. Attending these sessions have been patent attorneys, and representatives from the NIH Office of Technology Transfer, and from the Commerce Department's National Technical Information Service. A comprehensive FTTA reference booklet has been presented to each participant during these orientation sessions, . In the future, annual sessions for new employees and for additional field laboratories are planned.

FDA stays in close contact with other Federal Agencies, both regulatory and non-regulatory, and continues to share information concerning implementation strategies under the FTTA. FDA representatives regularly attend the NIH Patent Policy Board meetings and the NIH/ADAMHA/CDC Technology

Development Coordinators meetings to exchange ideas and information regarding technology transfer. FDA staff have attended the Federal Laboratory Consortium meetings, as well as OPM's two-week training program on technology transfer.

To date, FDA has approved ten CRADAs under the FTTA, and only recently has recommended that Commissioner Kessler approve three others. In addition, 95 patent actions are in various stages of application and prosecution. Of the total number of CRADAs that FDA Centers have proposed, NCTR is responsible for nine. Of this nine, eight have been approved as CRADAs and the other project is proceeding through use of the contract mechanism.

FDA believes that its participation in establishing the National Center for Food Safety and Technology is one example of FDA's creativity. Through the use of several mechanisms, including a contract, a Cooperative Agreement, and a CRADA, FDA, in cooperation with an educational institution, has worked to establish the Center in Chicago, Illinois and to participate in collaborative research projects. This represents a substantial investment of time, money, personnel, and resources on the part of the Agency. FDA is also a member of the Montgomery County High Technology Council whose charter is to promote technology transfer and commercialization of research products.

Biotechnology Cooperative

QUESTION: I am sure you're aware of the cooperative effort that was initiated two years ago to establish a National Biotechnology Cooperative at NCTR. My constituents tell me they wish to submit a Cooperative Research and Development Agreement to define the relationship between the NCTR and the proposed National Biotechnology Cooperative. Will you assure us that your staff will be creative, flexible, and timely in their review of this proposed agreement, in support of the concepts published by the President's Competitiveness Council?

ANSWER: FDA will carefully study any such proposed agreements and will make every effort, within available resources and regulatory responsibilities, to support such initiatives.

QUESTION: On a similar matter, a biotechnology firm from Massachusetts has recently established a laboratory just down the road from NCTR. This firm is in the business of transgenics, or as I understand it,

the business of inserting genes of one animal or plant into another for some beneficial purpose. If I understand correctly, this firm tells me they would be willing to provide transgenic animals to your FDA lab in Arkansas, in return for some basic services, such as chemical waste disposal.

This strikes me as a good deal for everyone, and one that carries out the intent of the Technology Transfer Act. Will you look into this matter and assure that this novel suggestion doesn't become bogged down in the bureaucracy?

ANSWER: FDA is already working to explore possibilities, and we will carefully consider possible mutual assistance arrangements between NCTR and Transgenics.

Minorities and Women in Technology

QUESTION: NCTR has developed some outstanding programs of interaction with the public school system, with Historically Black Colleges and Universities, and schools with large numbers of Hispanic students to develop more interest and capabilities among women and minorities in the fields of toxicology. Are these programs of interest to you and do you intend to support them?

ANSWER: FDA, along with the rest of the Public Health Service, is interested in training and recruitment efforts which would increase the representation of women and minorities in the fields of the life sciences. For the past several years, we have supported NCTR's scientific and training interactions with a wide range of constituencies, including the public schools, Historically Black Colleges and Universities, and other institutions with large numbers of minority students. We have every intention of continuing to support such important programs.

NCTR Training Programs

QUESTION: Given your excellent facilities and quality research staff and our nation's need for more scientists and technically trained workers, what is or can NCTR do to help? Are there other impediments to your being able to do some of these things? For example, do you have adequate training authority?

ANSWER: NCTR can and does play a major role in training young scientists through a number of existing programs. However, FDA's capacity to support these

types of initiatives must be viewed in the context of available resources and competing public health priorities.

Adequacy of Funding

QUESTION: Do you have sufficient funds to adequately maintain the facilities and equipment at NCTR?

ANSWER: FDA must consider improvements and repairs at NCTR in the same manner it does for other Agency-owned facilities. Resources are adequate to support the most critical needs.

Budget Line Item for NCTR

QUESTION: Since NCTR is a research institute, with a different mission from the regulatory activities of the rest of the agency, would you be opposed to a separately identified line item designated only for NCTR, including all of the administrative services and facilities support?

ANSWER: NCTR was established to support the needs of FDA in the field of toxicology by studing the biological effects of potentially toxic chemicals on humans and animals. The Center is an integral part of the Agency and, in our view, does not have a different mission from the rest of FDA. In the FDA budget for salaries and expenses, there is a separate line item for NCTR. The buildings and facilities account, which includes new construction as well as repairs and improvements to existing Agency facilities, groups all FDA programs together and funds those needs of highest priority.

Consolidated Facility

QUESTION. As you pointed out, you have initiated several studies to estimate the space and land you will need to consolidate the FDA's far-flung facilities.

Do you believe that it would be possible for the FDA to carry out its ever-increasing legislative mandates without a consolidated facility?

ANSWER. Irrespective of the quality of the facilities in which FDA's Washington, D.C. area programs are housed, the agency's management and scientific staff will continue to put forth whatever

effort is required in order to properly carry out FDA's legislative mandates. Obviously, as FDA's dedicated employees have proven year after year, it is possible to conduct responsible and meaningful regulatory research in substandard, fragmented, obsolete facilities. To do so, however, requires extra effort and productivity obviously suffers because of the agency's time and expense, inadequate, scattered facilities.

I remain convinced that consolidation of the agency's Washington area staff is essential in order to eliminate the major problems which have been mentioned: (1) FDA Washington area programs are housed in over 30 buildings in 11 locations; (2) As the agency grows from year to year, fragmentation will only get worse thereby exacerbating an already bad situation; (3) Most of FDA research facilities are outmoded, and some are antiquated dating from the 1930's. Most FDA labs cannot meet OSHA standards, and no FDA animal holding facilities currently meet accreditation standards of the American Association Laboratory Animal Care; and (4) There is severe overcrowding in some labs. Some of FDA laboratories are so overcrowded that researchers have less space to work in than is allowed for office workers by GSA standards.

QUESTION. What have your studies revealed at this stage?

ANSWER. The Prospectus Development Study, PDS, commissioned by the General Services Administration, GSA, at FDA's request has confirmed the findings of all of the earlier studies of the agency's facilities, and has recommended consolidation of area programs in state-of-the-art research facilities on a single site.

From a historical perspective, FDA has been attempting to consolidate Washington area programs for nearly forty years. FDA Public Advisory Committees meeting as far back as 1955 have recommended that agency functions in and around Washington be co-located.

The current GSA study, a copy of which is submitted for the record, recommends acquisition of a site in the Maryland suburbs of Washington, D.C. comprising between 300 and 450 acres, in order to accommodate foreseeable agency growth.

Space requirements outlined in the study are based on FDA's projected staffing through the year 2000. The GSA study indicates that FDA will require somewhat in excess of 3,000,000 square feet of occupiable space by the year 2000, about 60 percent of which would be laboratory or special purpose space.

QUESTION. Could you outline the specific use of $1.7 million you have requested for FY 1992 for consolidation?

ANSWER. These funds will be used for preparation of an Environmental Impact Statement, EIS, for the FDA consolidation project, for a site development plan, and for concept drawings of the several phases of construction comprising the project. The General Services Administration has advertised for a site in the Maryland suburbs of Washington, D.C. and has developed a list of nearly a dozen potential sites which are currently being evaluated. In the near future GSA and FDA will select the most suitable site and will then need to complete the EIS and the other planning prior to actual design of facilities.

Classification of Transitional Devices

QUESTION: A provision of the Safe Medical Devices Act of 1990 will permit the FDA to reclassify some medical devices, including contact lenses. Since this will mean a savings of agency resources when you won't be forced to continue a needless level of regulation, I hope you are giving this a high level of priority. Has the agency begun any work toward determining the proper classification of these transitional devices?

ANSWER: FDA is currently drafting an order to require manufacturers of transitional devices to submit a summary of and citation to any information known or otherwise available respecting the devices, including adverse safety or effectiveness information. FDA believes that the order will be published by December 1, 1991 as required by the statute. FDA will use this information in determining whether to revise the classification of a transitional device or require the device to remain in Class III. The decision to reclassify or keep a device in Class III is subject to notice and comment rulemaking. No regulation requiring a device to remain in Class III, or revising its classification, may take effect before 90 days from the date the proposed regulation is published in the *Federal Register*.

Scientific Review Groups

QUESTION: The FDA Revitalization Act contained a section permitting you to establish technical and scientific review groups to carry out FDA functions. These appointments can be made without regard to the provisions of the law regarding the General Schedule pay rates. Have you made any appointments yet? If

not, how soon do you plan to begin recruiting these scientific and technical experts? If you are able to offer a competitive salary to these experts, are there any other impediments to recruiting them for the agency?

ANSWER: The FDA Revitalization Act was effective November 28, 1990. Title III gives chartering and appointment authority for FDA advisory committees to the Commissioner. No appointments have yet been made. FDA was informed on April 4, 1991, that approval from the Office of the Secretary was granted to the Commissioner to exercise this authority, and the Agency is now in the process of recruiting these scientific and technical experts. There are nominees available for virtually every vacancy on FDA committees, and procedures are in place for processing these nominations. There are no other impediments to recruiting these experts.

Senior Biomedical Research Service

QUESTION: Last year we enacted the Senior Biomedical Research Service legislation in order for the Public Health Service to attract top scientists with attractive pay rates that they could previously earn only in the private sector. Of the 350 positions authorized, how many will the FDA be permitted to hire? What is the status of recruitment for these slots? Is there any possibility that the agency would eliminate other high-level positions as these biomedical experts are hired?

ANSWER: It is estimated that FDA will receive 50 of these slots, however, the allocation of the 350 positions will not be completed until after the Secretary has acted on recommendations for proposals for implementing SBRS. Implementing regulations are still being developed. No recruitment has yet taken place.

User Fees

QUESTION. In the past I have expressed doubts about the wisdom of imposing user fees--the cost to small start-up companies could be prohibitive, and it was not clear that the revenue would be earmarked for the FDA. In addition the actual amount that could be raised was uncertain.

The Administration's request assumes that $190 million of the agency's proposed budget of $770.2 million would be raised from product review fees.

Has legislation to authorize FDA user fees been introduced or even drafted?

Has the agency considered any other type of fee?

If Congress should pass such legislation, how long would it take the agency to implement the law?

If the process is lengthy, could FDA continue to carry out its mandates with only the appropriated funds?

ANSWER. I understand and am sensitive to your concerns. Few topics have generated as much discussion and as many differing perspectives as user fees.

At the time the President's budget was submitted, it was our intention to collect $190 million from fees for product evaluation activities in all product areas -- drugs, devices, food additives, biological, and animal drugs -- and $7.5 million from new registration fees for land based seafood processors.

Since the budget was submitted, however, we are working to be more flexible on just what activities we would charge for. An approach is being developed that would allow FDA to charge fees in three possible ways. The first is a product evaluation fee that would be similar to what we have previously proposed. The second is a registration fee that would be paid annually by all establishments subject to FDA regulation and inspection. The third is an assessment on the value of manufactured goods introduced into commerce each year.

This approach would allow the Secretary to set fees by any one, or a combination of, these methods; the fees would be set by notice and comment rulemaking. We are working hard, Mr. Chairman, to be flexible in our approach to user fees, in order to cooperate with Congress in trying to find an approach to user fees that meets Congressional concerns, but which at the same time does require those who benefit from Government services to pay for the costs of providing those benefits.

Since the fees would be established through notice and comment rulemaking, it would likely take the agency many months after enactment of the legislation to have the fees in effect and to begin collecting the fees. For this type of rulemaking on a controversial issue, having a final rule issued in less than 18 months would be unusually quick. If the final bill based on the proposal is challenged in court by the regulated

industry, the notice and comment process could take a very long time. The EPA has had a very difficult experience in implementing user fees through notice and comment rule making. To operate as envisioned in the President's budget, however, FDA would need to spend $770 million in 1992. Having less than this could result in very serious problems for the agency, and an inability to adequately assure public health and safety with respect to products we regulate.

QUESTIONS SUBMITTED BY SENATOR HARKIN

Resources for Alzheimer's Disease

QUESTION. Some 4 million Americans are today suffering from Alzheimer's Disease. We all know the physical, emotional and financial devastation this horrible disease brings upon its victims and their families. While there are a number of drug therapies under intensive study, none have been approved for use by the FDA. Because of the devastating nature of this illness and the lack of any approved therapy for its victims, it is important that the FDA promptly consider and review therapies brought before it that are potentially beneficial to Alzheimer's patients. Does your agency have the resources necessary to assure such prompt review?

ANSWER. For the current number of candidate drug therapies under investigation, resources within the Agency are adequate to support this endeavor. If a number of promising new drug applications were to be submitted simultaneously, FDA would then need to consider redirecting resources to this effort.

Expertise in Medical Devices

QUESTION: As you know, I have asked the FDA to thoroughly investigate allegations by a constituent of mine, Michael Maher, of Dubuque, Iowa, about inadequacies in the FDA's review of certain ultrasound equipment. I understand that the FDA is now conducting an on-site inspection to investigate Mr. Maher's submissions to you. One of the issues that has arisen in this case is whether or not the FDA has sufficient numbers of technological experts to adequately review the growing number of increasingly sophisticated medical devices being developed. What is the FDA doing to assure that it has the number and type of staff necessary to adequately review technologically sophisticated medical devices?

ANSWER: In order to enhance management of its programs, FDA recently completed a basic workload measurement project. This initiative focussed on identification of the number of activities the Agency completes and the resources expended in completing the activities. Accordingly, when a specific workload is increasing, for example, FDA can identify the resources that will be necessary to manage the new workload and incorporate the information into our budget requests. FDA also relies on its annual program planning process as a mechanism to identify needs, including needs for specialized expertise.

In the Center for Devices and Radiological Health, the product review and evaluation function is organized according to device specialties. This structures enables managers to match reviewer background and expertise to product specific applications and in turn, enables reviewers to keep abreast of current and emerging technologies. When necessary, reviewers can avail themselves to persons with specialized expertise within the Agency or within PHS, such as the Centers for Disease Control and the National Institutes of Health, and other Federal agencies, as well as advisory panel members. In some cases, FDA will initiate training endeavors on new technologies. Last year, for example, manufacturers reviewed Western Blot technology with reviewers in the Center's Division of Clinical Laboratory Devices. In June, Center staff will participate in a workshop with ultrasound manufacturers to discuss, among other things, the physics of new ultrasound technology.

Lastly, FDA places a great emphasis on employee development by encouraging and supporting training. During FY 90, 212 employees in the Office of Device Evaluation were involved in 557 training activities which included coursework directed towards advanced degrees, courses in office automation and scientific-based subjects, and seminars on research and emerging device technologies. Total expenditures for this training was $178,000.

QUESTIONS SUBMITTED BY SENATOR COCHRAN

User Fees

QUESTION. In fiscal year 1990, FDA's budget assumed that $100 million in user fees could be collected. That figure rose to $157.2 million last year, and the FY 1992 budget assumes the collection of $197.5 million in user fees. Can you tell us why your user fee estimate has doubled in the space of two years?

ANSWER. The increases in the level of FDA resources requested to be provided from user fees from 1990 to 1992 are really a reflection of concern about the levels of the growing Federal deficit. The Administration is anxious to find additional ways to fund this growing Federal deficit, and sincerely believes that those who derive some specific benefit from a Government service must be expected to pay the full cost to the Government of performing that service. As the pressure on the deficit increases, more Government services are identified that might be considered to provide specific benefits to the recipients of those services, and the number of possible exemptions to fees levied tends to decrease; as a result, the estimates of fees that might be recovered have tended to increase as a result.

QUESTION. Last July, the Department's Inspector General came out with a report titled "Implementing User Fees in the Food and Drug Administration". Although the report was a positive one, it raised a number of caveats. It stated, for example, that "fees might be difficult to administer and may be too small to warrant the effort of assessment and collection." Would you care to comment on that statement and, more specifically, would you tell us the size and nature of the user fees you intend to impose, as well as the dollar and personnel costs of implementing user fees?

ANSWER. It is not possible at this time to comment on the size and exact nature of the fees we intend to impose at this time. At the time the President's budget was submitted, it was our intention to collect $190 million from fees for product evaluation activities in all product areas -- drugs, devices, food additives, biological, and animal drugs -- and $7.5 million from new registration fees for land based seafood processors.

Since the budget was submitted, however, we are working to be more flexible on just what activities we would charge for. An approach is being developed that would allow FDA to charge fees in three possible ways. The first is a product evaluation fee that would be similar to what we have previously proposed. The second is a registration fee that would be paid annually by all establishments subject to FDA regulation and inspection. The third is an assessment on the value of manufactured goods introduced into commerce each year.

This approach would allow the Secretary to set fees by any one, or a combination of, these methods; the fees would be set by notice and comment rulemaking. We are working hard, Mr. Chairman, to be flexible in our approach to user fees, in order to cooperate with Congress in trying to find an approach to user fees

that meets Congressional concerns, but which at the same time does require those who benefit from Government services to pay for the costs of providing those benefits.

The dollar and personnel costs of implementing user fees will have to be determined after final approach to fee collection is decided upon. A large volume of relatively small fees will naturally cost more to administer than s small number of relatively large fees. But this concern naturally will be secondary to first determining a fair and equitable way to levy fees upon all who get some direct benefit from work done by FDA.

QUESTION. The Inspector General's report also stated: "The collection of fees may result in a reduction in agency appropriations in the amount of expected collections through fees, a significant concern to program officials worried about possible 'shortfalls'". How would you handle a shortfall in fee income?

ANSWER. A shortfall in fee income could be a serious problem. Over 60% of FDA's appropriation goes to pay the salaries and benefits of our employees. Their experience, dedication, and skill are unquestionably FDA's most important asset. Any significant shortfalls could cause serious problems in our ability to pay and maintain this workforce. For example a total freeze started on October 1, with no replacement hiring, would save FDA only about $20 million over the course of a year, even though it's impact on our ability to protect the public could be crippling by the end of a year. Any larger shortfalls, or any that become known only at a later point in the year, could require us to have to furlough employees without pay for a portion of the year. If we were forced to take such drastic action to cope with a shortfall of revenues, the effect on our workforce could be devastating. Morale would plummet, and our best and brightest employees -- those that receive the most frequent offers of employment -- would most likely leave; it could take years to recover from such an episode. We need to give serious thought to some method of protecting the agency from such a shortfall as we proceed with user fees.

Staffing

QUESTION. Late last year Secretary Sullivan in a letter to OMB Director Darman pointed out that, and I quote "excluding staff associated with new problems arising during the 1980's --for example, AIDS and generic drugs--FDA staff actually decreased by 16

percent between FY 1980 and FY 1991." Can you tell us the extent to which the budget proposal before us today would restore agency operations to the FY 1980 level? How much would it cost to get back to the FY 1980 level?

ANSWER. In 1980 FDA utilized 8,089 staff years in carrying out its legislative mandates existing at that time. Our FY 1992 funding request would support 8,917 full-time equivalent staff years, however the public and Congressional expectations of the Agency have changed dramatically during this period. As the Secretary noted new and expanded workloads during the eighties have had a tremendous impact upon FDA. Excluding the impact of new legislation passed in the last session of Congress, increases in staffing to address new problems and legislation approximate 1,950 since 1980 for AIDS, medical devices, generic drugs, the need for expanded seafood surveillance, and new laws. To restore FDA staffing in the areas of traditional 1980 FDA activities an additional 1,100 staff years and approximately $83 million would be required.

FDA Budget

QUESTION. In his letter to Mr. Darman, Secretary Sullivan further stated: "To continue the process of restoring public confidence in FDA and to respond to the burgeoning portfolio of products for which FDA has oversight responsibilities, we are seeking a total of $785 million. The amount requested by Dr. Sullivan is $15 million more than the budget proposal we are considering today. Can you tell us how you would allocate an additional $15 million?

ANSWER. I believe that the request in the President's budget for $770 million in spending authority for FDA is reasonable and adequate for the agency to operate responsibly in 1992. If any additional resources were made available, however, my top three additional priorities in 1992 have to do with fuller implementation of two of the major pieces of legislation passed in 1990 -- the Safe Medical Devices Act and the Nutrition Labeling and Education Act -- and with further efforts to enhance the safety of the blood supply.

ANDA Review Time

QUESTION. On page 40 of your justification there is a table which indicates that the average review time from receipt to approval for Abbreviated New Drug

Applications (ANDA) was 26.4 months in 1990. The comparable figure for 1989 was 16 months and last year's justification estimated 16 months for 1990. Why did it take 65 percent longer to review ANDAs in 1990 than you initially indicated?

ANSWER. The actual average review time for ANDAs in FY 1990 was longer than was estimated when last year's budget was developed. The average review time increased for several reasons. The initial review in taking longer because applications are receiving closer scrutiny as a result of the fraud and wrongdoing discovered among previous applications. Many firms were identified as having problems complying with FDA's current Good Manufacturing Practice (GMP) regulations. Approvals of applications from those firms were often held up until the field completed inspection and provided clearance. More careful application review is also detecting more deficiencies in applications which must often must be returned to the sponsor two or more times for correction. The time the ANDA spends back with the firm after submission is included in the agency's review time. All of these have contributed to the lengthening of the review process. More importantly, however, they contribute to increased confidence in the safety and effectiveness of the generic drugs that are approved.

Approval Time for NDAs

QUESTION. The processing time for new drug applications (NDAs) has been gradually increasing over the past three years. It has gone from 29.6 months in fiscal year 1988 to 29.9 months in fiscal year 1989 to 31.7 months in 1990. What has contributed to this growth and what steps are you taking to reduce processing times?

ANSWER. These averages are mean values and can be misleading. In 1990, for example, three NDAs were approved that took 98 months or more. Yet in that same year, there were also 13 NDAs approved in 12 months or less, and five of these were new molecular entities which usually require a more intensive review.

These NDAs with long approval times that skew the mean values usually go through several review cycles before approval, have numerous amendments submitted, and spend a fair amount of time in the hands of the sponsor while the sponsor responds to deficiencies cited in FDA's "not approvable" letter. The Agency believes a better measure of trends in the review times is the median. The median does not give extra weight to the outlying NDAs. When medians from FY

1988 to FY 1990 are compared, it can be found that approval times are improving. In FY 1988, the median approval time was 24.7 months, in FY 1989 it was 24.0 months, and in FY 1990 it was 23.8 months.

Consolidated Facility

QUESTION. FDA headquarters are located in 23 buildings in 7 geographic locations throughout the Washington, D.C. area. Studies done by the FDA, and the GAO have all documented that the FDA facilities, including laboratories, fail Federal safety code requirements for very basic needs--air ventilation, air contamination and plumbing.

In FY 1990, this Committee provided funding to the FDA to proceed with a feasibility evaluation of establishing a consolidated facility. Could you please outline the status of this report?

In order to proceed with your planning for a consolidated facility, will you need additional resources in fiscal year 1992? For what would these funds be used?

ANSWER. Preliminary planning for the consolidation of FDA programs in the Washington, D.C. metropolitan area began in earnest on March 22, 1990 when the Agency transferred funds to the General Services Administration (GSA) for preparation of a Prospectus Development Study (PDS) that would define the scope of the project and it's cost. On July 2, 1990, GSA contracted with the firm of Hill International for the preparation of the PDS.

The firm of Leo T. Daly was engaged as a consultant by Hill International and began work on the study shortly thereafter. The GSA schedule called for completion of the study by December 14, 1990. Interviews were scheduled with FDA program managers and questionnaires were developed to solicit information concerning staffing, space requirements, design criteria, etc.

On October 27, 1990, shortly before the PDS was to be completed, Congress passed PL 101-635 (The FDA Revitalization Act) which not only authorized the consolidation project but also instructed the Secretary of Health and Human Services, after consultation with the GSA Administration, to proceed with the acquisition of the needed land and facilities. The President signed the bill into law on November 28, 1990.

The GSA study (PDS) was completed on schedule on December 14, 1990. The PDS revealed that FDA's Washington area staffing for the year 2000 was

projected to be about 8,300 employees, and that nearly 3,200,000 square feet of occupiable space would be needed to accommodate the scientific and administrative functions of the Agency at that time. Because the estimated cost of the state-of-the-art facilities envisioned was in excess of $750 million, a phased development strategy was devised. With the addition of cost escalation to the mid-point of construction and estimated land costs added-in, the total project cost was estimated to range between $1.2 and $1.354 billion. A copy of this study is submitted herewith for the record. The phases of construction identified in the PDS are as follows:

Fiscal Year	Activity	Amount
1993	Site Acquisition	$185 million
	Phase I Design	15 million
1994	Phase I Const'n.	310 million
	Phase II Design	10 million
1995	Phase II Const'n.	200 million
	Phase III Design	13 million
1996	Phase III Const'n.	275 million
	Phase IV Design	16 million
1997	Phase IV Const'n.	330 million
Total estimated cost.....		1,354 million

Obviously, before any design work could begin in earnest, a site would have to be acquired and detailed programming documents would have to be developed to work out the design requirements for the architect. During the period when the GSA study was underway, FDA officials contacted the Offices of Economic Development in both Prince George's and Montgomery Counties in Maryland in order to develop a preliminary listing of potential sites where the consolidation could be placed. These two counties were chosen because that is where approximately 75 percent of FDA's Washington area employees reside. Some 18 sites were identified in this preliminary survey, but a number of them were considered questionable because they failed to meet minimum acreage requirements, determined by GSA to be at least 300 to 450 acres, depending on topography, soil conditions, wetlands areas, etc.

The development of detailed program documents for the four phases of construction began in mid January, 1991, and is expected to be completed by mid June, 1992. The Program of Requirements for the first phase of construction, covering space needs of the Office of

the Commissioner and related functions as well as the Center for Food Safety and Applied Nutrition will be completed by September 30, 1991. Because the programming effort is so well along,FDA will be in a position to begin to acquire a site acquisition and design Phase I in FY 1992, even though the timetable in the Prospectus Development Study does not call for them until FY 1993.

Recruitment and Retention

QUESTION. Dr. Kessler, last year, Congress passed the Senior Biomedical Research Service, a bill which would establish a higher pay scale for senior scientists within the Public Health Service. It is my understanding that some of the authorized positions, which totaled 350, will be directed toward the FDA. How many of these positions will the FDA be receiving, and what is the status of recruitment for these slots? How many Division Director positions are currently vacant? What do you think is the major impediment to effective recruitment for these positions?

ANSWER. Unfortunately, I cannot give you a definitive answer at the moment. Immediately following enactment of the Federal Pay Comparability Act, which authorized establishment of the Senior Biomedical Research Service, an SBRS Policy Advisory Group was established by the Assistant Secretary for Personnel Administration and the Assistant Secretary for Health. Recommendations regarding implementation of SBRS from this group are now under consideration by the Secretary's Executive Resources Board and proposals based upon these recommendations are being developed for action by the Secretary. The allocation of the 350 SBRS positions to FDA and other PHS agencies will not be completed until the Secretary acts on these proposals. Once Secretary Sullivan makes his decisions, the proposed implementing requlations must be forwarded to OMB for approval. At this point, we can't predict what the OMB response will be or the time required for clearance. We have been advised that HHS is preparing to act immediately upon OMB action.

There are 116 Division Director positions in FDA, 51 of which have been identified as SES positions. Of these 51 positions, only 24 are currently filled at the SES level or equivalent Commissioned Corps rank. Eleven of the 51 positions are vacant and a majority of these have been vacant for one year or more.

Clearly, we believe that the major impediment to recruitment for these senior management positions is the inability to offer competitive salaries to

prospective candidates. It is hoped that the implementation of SBRS will eliminate this recruitment difficulty.

QUESTION. Under your leadership, what steps will the FDA be taking to improve recruitment and retention of FDA personnel? And what support can the Congress provide for you to enable you to meet this critical problem?

ANSWER. The Federal Employee Pay Comparability Act, when fully implemented, provides me with a great deal of optimism concerning FDA's future ability to both recruit and retain our essential work force. Many of the provisions can provide the prerequisite ingredients to recruit the highly specialized talent required to carry out our mission. We especially look forward to the full implementation and funding of the recruitment, retention and relocation bonus provisions.

Over and above this new tool made available to us by the Congress, I have also initiated several other programs which I believe will also lead to improvements in our ability to attract the specialized expertise we need in the Agency. In terms of recruitment, we are working on improved information materials that can aid in the process. I am also encouraging all managers and scientists to become more actively and aggressively involved in the recruitment process and am personally working myself in some of those processes where the staff believes that my involvement can make a difference in the candidate's acceptance decision. We are also exploring, internally, various alternative appointment options which we hope will reduce the time between candidate identification and commencement of employment with the Agency.

FDA Resources

QUESTION. In the last session of Congress, I'm told that 12 new laws were enacted which expanded the authorities and responsibilities of the Food and Drug Administration--laws such as the FDA Revitalization, the Breast Cancer and Cervical Cancer Mortality Prevention Act, Medicaid Drug Pricing, Nutritional Monitoring and Related Research Act, to name a few.

In your opinion, is there adequate funding provided within the budget request to fully implement the intent of these mandates? What resources would be required?

ANSWER. There are resources in the 1992 budget request to allow us to begin implementing some

provisions of two of these Acts, the Safe Medical Device Act and the Nutrition Labeling and Education Act. Full Implementation is a different story, however. Internal estimates of the costs of fully implementing these bills range between 700 and 1000 FTE, and of somewhere from $60 million to over $100 million -- excluding any one-time costs necessary for construction of a consolidated workplace, as envisioned by the FDA Revitalization Act. But the 1992 request does provide program increases for what I believe are the most important initiatives that the agency must address, while allowing us to begin to implement the intent of the most important provisions of two of the most burdensome of these new laws.

Biotechnology

QUESTION: There are many scientific advances which have changed the face of medical technologies, including molecular biology, molecular genetics and the development of the broad field of products referred to as biotechnology. What steps is the FDA taking to ensure that the FDA staff is adequately trained to meet the critical demands of these innovative technologies?

ANSWER: As a regulatory agency that traditionally performs science-based reviews, the FDA has considerable experience and expertise on which it can rely to deal with new technologies. The various Centers within FDA have recruited scientists in such disciplines as molecular biology, immunology and protein chemistry to supplement traditional biotechnology-related skills as biochemistry, microbiology and biochemical engineering. In addition, the Centers provide a number of different forums for staff training and development. For example, there are internal courses and seminars, workshops, and staff frequently attend external scientific meetings. Interactions between the scientists who have predominantly research research responsibilities and those who have regulatory/review responsibilities are encouraged.

QUESTION: I am concerned about this nation's ability to provide adequate preventive care -- through vaccination against diseases which we can manage. I am also concerned about our ability to meet the growing capacity of the vaccines and biotech products that we have in the pipeline. Do you believe that the proposed level of funding is adequate to provide the increased resources necessary to ensure a timely and efficient review of biologic and vaccine products?

ANSWER: Yes. The estimated increase in resources will be utilized to begin to address the increasing numbers of factors that have resulted in more lengthy and complex reviews and approvals of biological therapeutics and vaccines. These factors include an increase in the number of INDs and their conversion to Product License Applications and increased numbers of biotechnology-related products under development containing clinical data requiring a more intensive and complex review. These additional resources will also be used to focus on FDA's portion of the National Vaccine Program including addressing the timely and efficient review of preventative care vaccines.

Regulation of PET

QUESTION. Position Emission Tomography (PET) is a nuclear medicine procedure which measures the chemical system of the body. PET provides physicians with unique information which eliminates the guesswork now associated with certain areas of medical practice as well as costly exploratory surgery. PET has many practical applications in diagnosing problems associated with the heart and brain. In fact, Secretary of Health and Human Services Sullivan has noted that the "importance of PET's use in basic and clinical research of such widespread and devastating disorders as Alzheimer's, Huntington's, and Parkinson's diseases, epilepsy, stroke, heart disease, and brain tumors, cannot be overstated.

Medicare reimbursement of PET is being delayed pending a FDA decision regarding the regulation of the radiopharmaceuticals used in PET procedures. Has FDA made a determination whether or not it intends to regulate PET? When can a decision be expected?

ANSWER. Before responding to these questions, a brief remark on the issue of Medicare reimbursement of positron emission tomography (PET) as it relates to regulation of PET drugs is appropriate. In the case of FDA's regulation of these drugs, FDA's approval is considered a prerequisite for Medicare reimbursement. However, in the absence of FDA regulation and approval, the Health Care Finance Administration could, perhaps, seek other means of assessing the medical justification for reimbursing charges for PET.

Positron emission tomography (PET) an imaging modality has been available for several years as a medical research tool. However, FDA is considering whether to regulate positron emission tomography (PET) radiopharmaceutical drugs as "new drugs" within the meaning of the Food, Drug, and Cosmetic Act. The Agency, thus, may require the submission of new drug

applications for commercial distribution of these drugs. Last year the agency approved Cardiogen, a generator-produced rubidium Rb PET radiopharmaceutical drug. Most PET materials require cycloto-produced radionuclides with short half-lives. The short radioactive half-life of most PET drugs results in the logistical necessity of producing them in a clinical environment for prompt administration to patients, a practice that distinguishes them from other radiopharmaceutical drugs. That distinction, however, does not require that PET drugs be regulated as something other than new radio-pharmaceutical drugs, whether or not the pharmacy preparing the PET product plans to use it beyond the institution in which it is located. We are exploring innovative approaches to regulating PET products because of the uniqueness of PET drug production.

A privately-operated organization, the Institute for Clinical PET (ICP), has been organized to develop documents containing the medical and scientific data necessary to support new drug approval (evidence of effectiveness, safety, proper preparation) of each PET drug should this be the regulatory route that FDA chooses.

FDA does intend to regulate PET radiopharmaceuticals, but the exact nature of such regulation is to be determined. The Agency must assure safe and useful products while encouraging a vigorous area of investigation to flourish.

Poultry or Swine Products

QUESTION. As you know, animal drugs or veterinary products are a major concern of farming states. I've been told that few, if any, new drugs or products have been approved for poultry and swine during this past year. Is that true? If so, why is that? How can we make sure that farmers and poultry producers get the new products they need to have a successful business?

ANSWER. In FY 1990 the Food and Drug Administration's Center for Veterinary Medicine approved four new products for swine and poultry. This number of approvals is consistent with FDA's approval rate in past years. FDA has performed these preclearance responsibilities while the demand for resources has increased dramatically. Recently FDA has been actively engaged in investigations of the integrity of the data submitted by several pharmaceuticals. These investigations have required that resources be diverted from preclearance to

bioresearch monitoring activities. Additional resources will be required to support these activities and to oversee the reform of the quality assurance capabilities of pharmaceutical manufacturers. It should also be noted that the FDA can only review applications submitted for approval and does not get involved in generating new products.

QUESTIONS SUBMITTED BY SENATOR SPECTER

Salmonella Enteritidis

QUESTION. Salmonella Enteritidis continues to pose a great threat to the egg and poultry industry nationwide and in Pennsylvania. The SE, as it is referred to, is suspected to be transmitted from infected laying hens directly into the interior of the egg before the shells are formed. This development, in turn, makes tracking the infection much more complicated and possibly dangerous to the producer. In addition, proper handling by processors and users is vital to ensuring that the infection does not cause outbreaks in humans. What efforts are underway by FDA to educate food handlers in the retail industry about proper handling and cooking of eggs? What level of risk assessment has FDA conducted to determine the incidence rate and rate of contamination on a nationwide basis?

ANSWER. FDA issued a Model Code Interpretation placing the whole shell egg in the hazardous food category on August 22, 1990. This Interpretation placed the whole shell egg into the same category as are most meats, poultry, and cooked vegetables. This Interpretation requires refrigeration of shell eggs at the retail level, requires that eggs be thoroughly cooked, and requires the holding of cooked eggs at a temperature of 140 degrees Fahrenheit or above. The pooling of large amounts of eggs is strongly discouraged and the use of pasteurized eggs is recommended for recipes in which they can be substituted. This measure should reduce the number of outbreaks occurring at the retail level. It does not, however, address the sporadic cases that occur in individual households. According to the Center for Disease Control, the number of these sporadic cases continues to increase from year to year.

The United States Department of Agriculture and the FDA have mailed thousands of fact sheets, explaining the proper handling and cooking of eggs, to households in regions where the incidence of SE is high. Food editors of newspapers across the United States have

also been advised of the SE situation and of the proper handling and cooking of shell eggs.

Estimates of the incidence of SE in eggs vary from 1 to 200-400 eggs from an infected flock to 1-10,000-14,000 in eggs that have been mixed with noninfected eggs from other flocks. The USDA is currently conducting a spent he and a pooled pasteurized eggs survey to determine the number of flocks that may be infected across the United States and where they are geographically located. Epidemiological data suggests that flocks in the Northeast originally were the only flocks infected. A spread of outbreaks to the South and then West suggests that flocks across the United States are becoming infected.

Tacrine

QUESTION. Recently, the FDA, with the assistance of a direct urgent supplemental appropriation, reviewed the drug tacrine for treatment of Alzheimer's patients. After extensive clinical trial the FDA on March 15, 1991, conducted a hearing to discuss the results of the trial. During the hearing which lasted approximately 14 hours, evidence was presented that the drug took back six months of the disease's progression. Subsequently, after the hearing an advisory committee to the FDA recommended against approving tacrine. It is my understanding that in proper doses tacrine is not harmful and in fact brought about some improvement in memory. Considering that tacrine is the only drug FDA has under review, why could not the participation in clinical trials be open to as many patients as possible?

ANSWER. The FDA fully appreciates the suffering endured by the victims of Alzheimer's Dementia and is committed to providing full assistance and support to those parties seeking to develop effective and safe treatments for this devastating illness. Toward this end, the FDA has, over the past four years, worked cooperatively with Warner Lambert, the commercial drug firm developing tacrine, and the National Institute on Aging to assure that this new drug would be tested and evaluated fairly and in a manner consistent with the requirements of the Federal Food, Drug and Cosmetic Act.

The results of the tests and investigations conducted by and/or on behalf of Warner Lambert were expeditiously reviewed and presented to the Agency's Peripheral and Central Nervous System Drug Advisory Committee on March 15, 1991. The Committee, after considering the evidence at an unusually long meeting, declined to recommend tacrine's approval. The Agency

has yet to take formal action on Warner-Lambert's pending NDA and is in the midst of discussions with Warner-Lambert regarding possible courses of action. One possibility under consideration is the conduct of one or more large scale, controlled clinical investigations that would provide additional information on tacrine's efficacy and safety while providing wider access to the drug for those who might benefit from it.

QUESTIONS SUBMITTED BY SENATOR BOND

Reduction of Approval Time for Drugs

QUESTION. The FDA's regulation of the drug approval process is perhaps one of the most important missions of the Food and Drug Administration. A common criticism of the Agency's ability to perform this mission is the length of time it takes for this review process. Delays in drug approvals reduce the amount of time left for a pharmaceutical company to retain patent exclusivity and thus recoup their multi-million dollar investment. As pharmaceuticals are the most cost-effective and widely used treatment option available to the physician, the ability of the FDA to shorten the drug approval process will help control health care costs. And certainly, for those patients whose lives would benefit from innovative new drug therapies, an efficient drug approval process can mean the difference between life and death.

I understand the added burdens placed on the FDA by the AIDS crisis, by increases in workload in the generic drug and medical device areas and other new roles that Congress has assigned to the FDA. Could you please share with the Committee, your plans for increasing the efficiency--and thus shortening the approval time--of the drug approval process? What are your specific plans for the computerized drug application process and what impact will this have on the Agency's ability to perform this mission?

ANSWER. A continuing goal of FDA is to improve the speed and quality of the drug review program. With past Congressional support, FDA has been hiring additional medical officers for NDA review, and are now in the process of training them. As these new medical officers begin to pick up some of the workload, the Agency has found that there is need to balance these recruitment efforts by hiring additional chemists, pharmacologists, and consumer safety officers. The new Division of Antiviral Drug Products is also training its new staff to handle the growing workload in the review of AIDS drugs.

The Agency anticipates receiving better quality applications as a result of the twelve 1987 guidelines on manufacturing controls, pharmacology, and microbiology, and the final 1988 guideline on the clinical and statistical sections of an NDA. At present, FDA staff is meeting more frequently with drug sponsors after the initial stages of the drug testing to provide advice on the design of the critical phase 3 trial. Sometimes these efforts do not result in shorter review times for the NDAs, but they are important in reducing the overall drug development time, which is what matters most.

FDA views computer technology as a promising means of making the new drug application review process more efficient. Computer-assisted New Drug Applications (CANDAs) have been around since 1985 and originated due to space and efficiency considerations. Over the past five years, FDA has worked with industry on a trial basis to increase ease and efficiency in using CANDAs. There is a great variety of software, hardware and data organization used in their creation, but with cooperation, training, and patience among FDA, applicants, and third parties, the agency is learning to retrieve and manipulate the data more quickly than is possible using paper applications.

Some of the anticipated benefits of CANDAs are improved communication and much quicker turnaround time for additional needs from the sponsor, which can generate better overall NDA development and shorter agency review times. However, before substantial improvements in review times can be achieved, FDA must work with industry to develop and coordinate a set of guidelines for formats, data standards, data analyses, security and other information, as necessary for a model CANDA. FDA hopes to complete this cooperative effort by the end of fiscal year 1995, and as CANDAs become more common in the years that follow, more substantial improvements in the review times should be seen.

Drug Quality Control

QUESTION. Another important mission of the Agency, I believe, is its ability to monitor drug quality control and spot potential problems and prevent them. This activity is important in maintaining the nation's drug distribution system. I understand that there are two different programs that collect this information--namely, the USP Drug Product Problem Reporting Program and the FDA's Drug Quality Reporting System. These programs appear to have overlapping missions and I understand that these activities use to take place very effectively in the USP program with support from the FDA--rather than

having two separate programs. It would seem that having two programs would be confusing to providers who are expected to report problems. Could you please share with the Subcommittee what efforts are planned to eliminate this duplication of effort in the interest of cost savings?

ANSWER. The Drug Quality Reporting System (DQRS), previously known as Drug Product Problem Reporting (DPPR) is an FDA mission related activity requiring direct agency control. This FDA compliance program and related activities assures the quality of nationally distributed prescription and non-prescription (OTC) drug products. It is oriented to monitoring the quality of drugs during a period from release by the manufacturer or repackager to a point, as close as possible, to consumer/patient use. The promotion and data management aspects of this program have been handled through a series of renewed government contracts awarded to the United States Pharmacopeia Convention (USPC), a nongovernmental organization.

In 1988, the contract was again up for renewal. At this time USPC chose not to competitively bid and a three-year contract was awarded to a service company. USPC decided to run its own program, without FDA involvement or assistance, continuing the established name Drug Product Problem Reporting (DPPR), while modifying certain functional aspects of the program operation. Although it may appear to be duplicative, all USPC obtained reports are gratuitously provided to the FDA and there is little, if any overlap in reporting. A new three year contract for the DQRS program will be awarded in the second half of 1991 for the continuation of FDA's 20 years of marketplace surveillance. USPC has been encouraged to again compete for the contract.

Biotechnology Research

QUESTION: American companies have played a valuable leadership role in biotechnology research. However, there is widespread concern that the ability of these companies to effectively compete internationally is threatened. If this nation is to maintain its position as a world leader in the pharmaceutical industry, we must take steps to keep biotech on our shores. What steps is the Agency takirg to ensure that we are at the forefront of science and that we don't send our biotech companies looking for greener pastures?

ANSWER: FDA is also concerned about and

dedicated to making new and beneficial biotech products available to the American public as rapidly as possible. Consequently, additional appropriately trained scientists/- reviewers are being hired to supplement the staff as well as the implementation of staff training and development programs. Additionally, guidance documents that are relevant to various aspects of this rapidly evolving technology have been issued. These documents discuss "points to consider" in the development, testing, and review of these products and are being harmonized to the extent feasible with similar guidance provided by the European Economic Community in order to reduce overall obstacles to drug development.

FDA has also expanded the expertise and use of existing advisory committees as well as creating new ones to assist in the review of new product classes as they abecome available. The Agency will continue to convene consensus-building workshops in emerging areas as necessary. Most important, FDA will continue to communicate actively with sponsors during product development to ensure that sponsors understnd how to direct their new products through the regulatory process in the most appropriate and efficient manner.

Regulation of Compounded Drug Products

QUESTION. I understand that there is a disagreement concerning the authority of the Agency to regulate the manufacture of drugs versus the authority to regulate the extemporaneous compounding of drug products. Particularly, in the field of nuclear medicine where products, once compounded, have very short half lives that necessitate onsite compounding, the question arises as to whether the FDA proposes to regulate the manufacture of drugs or the practice of medicine and pharmacy. There are cases, however, where a practitioner is compounding medications in bulk, resulting in this practitioner more resembling a manufacturer. What are the Agency's plans for regulating these practices? Will there be distinctions made for practices, such as nuclear medicine, where compounding is a necessity? In general, what is the Agency's view toward its authority to regulate in this area?

ANSWER. The group of radionuclides to which these questions are most applicable are the positron emitters which characteristically have short half-lives, making on-site preparation a logistical necessity. Most positron emitters (used in positron emission tomography, or PET scans), have half-lives of a few minutes or less; fluorine 18 products, with a "long" half-life of about 110 minutes, can be transported some distances, but this is the exception.

The logistical necessity of on-site preparation by nuclearpharmacists does not confer any exemption from FDA's jurisdiction under the Act. Although pharmacies are exempted from certain provisions of the Act, there is no general exemption from the adulteration, misbranding, or new drug provisions of the Act for pharmacist compounding.

Moreover, PET drug production involves a sophisticated system involving a staff of specialists including phuysicists and radiochemists under the general oversight of a nuclear physician. It involves complex technology requiring precise physical and chemical interactions. It is, in short, more analagous to manufacturing than the traditional practice of pharmacy.

The Agency has jurisdiction over PET products and believes it important to regulate PET products. The Agency intends to exercise its authority to ensure that PET drugs are safe, effective, and have been produced in compliance with current good manufacturing practice.

Preparation of a PET drug from the radionuclide obtained from cyclotron requires precise chemical steps to produce the radionuclide-liquid combination that is useful in diagnosis, and attention to sterile procedures. Determining what the PET materials are useful for requires the conduct of clinical studies and the drugs ought to be properly labeled. Developing standards that will assure safe and useful products in this environment may require innovative approaches but ignoring the issue is not necessarily the best course.

The Agency must assure safe and useful products while encouraging a vigorous area of investigation to flourish.

QUESTION. I also understand that third party and Medicare reimbursement of PET is being delayed pending a FDA decision regarding the regulation of the radiopharmaceuticals used in PET procedures. Will you please share with us the Agency's position regarding whether or not the Agency intends to regulate PET? Will FDA only regulate those PET sites which distribute the radiopharmaceuticals for use beyond their own facility or is it the Agency's intent to regulate nuclear pharmacy PET compounding at all sites throughout the country?

If FDA intends to regulate PET radiopharmaceuticals, what is the process by which the FDA intends to implement its decision? When will FDA publish its procedures for site inspection and approval process?

What will be the effective date by which the FDA intends to begin enforcing this approval process?

The regulation of radiopharmaceuticals has implications for other areas of practice. Is the Agency considering regulating the type of dosage forms that pharmacists would be allowed to compound? If so, what is the Agency's intentions with regards to the preparation of IVs in hospitals or for home-IV therapy, or in the preparation of IVs for pediatric use--particularly when drugs may not be available in strengths and concentrations necessary for this patient population. Does the FDA have the statutory authority to regulate pharmacists compounding activities?

ANSWER. Before responding to these questions, a brief remark on the issue of Medicare reimbursement of positron emission tomography (PET) as it relates to regulation of PET drugs is appropriate. In the case of FDA's regulation of these drugs, FDA's approval is considered a prerequisite for Medicare reimbursement. However, in the absence of FDA regulation and approval, the Health Care Finance Administration could, perhaps, seek other means of assessing the medical justification for reimbursing charges for PET.

Positron emission tomography (PET) an imaging modality has been available for several years as a medical research tool. However, FDA is considering whether to regulate positron emission tomography (PET) radio-pharmaceutical drugs as "new drugs" within the meaning of the Food, Drug, and Cosmetic Act. The Agency, thus, may require the submission of new drug applications for commercial distribution of these drugs. Last year the agency approved Cardiogen, a generator-produced rubidium Rb PET radiopharmaceutical drug. Most PET materials require cycloto-produced radionuclides with short half-lives. The short radioactive half-life of most PET drugs results in the logistical necessity of producing them in a clinical environment for prompt administration to patients, a practice that distinguishes them from other radiopharmaceutical drugs. That distinction, however, does not require that PET drugs be regulated as something other than new radio-pharmaceutical drugs, whether or not the pharmacy preparing the PET product plans to use it beyond the institution in which it is located. We are exploring innovative approaches to regulating PET products because of the uniqueness of PET drug production.

A privately-operated organization, the Institute for Clinical PET (ICP), has been organized to develop documents containing the medical and scientific data necessary to support new drug approval (evidence of effectiveness, safety, proper preparation) of each PET

drug should this be the regulatory route that FDA chooses.

QUESTION: I am convinced that new biotechnologies are here to stay and are vital to our economic future. How does the FDA regulate this technology? How do you plan to regulate it in the future?

ANSWER: As part of the government-wide effort in 1984 to develop a coordinated regulatory framework for biotechnology, FDA reviewed its enabling statutes (the Federal Food, Drug, and Cosmetic Act and the Public Health Service Act), regulations, and procedures in light of new developments in biotechnology. The Agency determined that the existing laws and procedures were adequate to ensure the safety of products of biotechnology (OSTP, Federal Register, December 31, 1984, 49 FR 50856). Consequently, FDA is regulating products produced through new biotechnology by the same procedures and regulations that apply to products produced by other methods, as discussed in the FDA's policy statement on biotechnology in the OSTP's Coordinated Framework for Biotechnology (Federal Register, June 26, 1986, 51 FR 23002). The Agency regards the use of modern biotech methods to produce regulated products as an extension -- a refinement -- of older techniques. FDA's extensive experience reviewing the products and processes of conventional methods is relevant and adequate for reviewing new biotech products. It is expected therefore, that FDA will continue the current practice of regulating these products based upon their intended use and the nature of the product.

QUESTION: I am particularly interested in how you are now and plan to regulate animal products like bst and pst and how you plan to regulate genetically engineered plants.

ANSWER: As stated in the answer to the preceding question, FDA has determined that it will regulate products of biotechnology under the provisions of the Federal Food, Drug, and Cosmetic Act and, therefore, the same procedures and regulations apply to these products as well as to products produced by other methods. The FD&C Act provides FDA with broad authority to take action against a product that is adulterated or misbranded within the meaning of the act. The Agency is developing a specific policy on the whole issue of biotechnology application regulation.

Both bST and pST are regulated as animal drugs. Just as with products produced by other methods, these products must be shown to be safe and effective.

Substances that are derived from food by processing (i.e., Simplesse and canola oil) which are intended to be added to food are reviewed under the GRAS affirmation procedures of the food additive provisions. However, the diversity of potential applications in food biotechnology suggests that other provisions of the act as well could apply in some circumstances, including the adulteration provisions for added substances.

FDA recently received the first formal request from industry concerning a question about the use of gene fransfer in foods. This request pertains to the use of a marker gene, kanamycin-resistance, that is used to assist in developing new crop varieties through gene transfer. It is believed that the review of this question and others will help to develop a sound policy to ensure that new foods are safe for human health and for the environment.

BST

QUESTION. I am particularly interested in how you are now and plan to regulate animal products like bst and pst and how you plan to regulate genetically engineered plants?

ANSWER. We are regulating both bST and pST as animal drugs and plan to regulate future biotechnology produced products as either animal drugs, food additives, or foods depending on the claims made for the product and the nature of the product. These products must be shown to be safe and effective. Demonstrating safety involves human safety, environmental safety, and animal safety. No new procedures are contemplated at this time for regulating these products. If a plant can be altered to cause it to be considered an animal drug or otherwise within the jurisdiction of the FDA, FDA would regulate the product.

QUESTION: How do you see FDA's involvement in this technology versus EPA and USDA? Is the current regulatory structure designed to meet the increasing number of new product submissions?

ANSWER: USDA and EPA share FDA's view that the technology is important and should not be stifled. However, each of the agencies views biotechnology through the prism of the laws and regulations it enforces and the types of products over which it has jurisdiction. Representatives of the agencies meet under a number of forums to discuss issues of mutual interest. For example, senior representatives of the three agencies meet regularly as part of the

Biotechnology Working Group of the President's Council on Competitiveness, and as part of the Biotechnology Research Subcommittee of the Federal Coordinating Council for Science, Engineering, and Technology. Representatives of the agencies also meet on an as-needed basis to discuss questions concerning products that cross jurisdictional boundaries.

The regulatory structures currently in place are adequate to meet the increasing number of new product submissions. However, it is important that they be kept flexible enough to adjust to changing demands. It will also be important that the resources available to us be commensurate with the change in demands.

QUESTION: From an FDA perspective, do you see any major obstacles in approving biotechnology products for agriculture? Do non-scientific factors enter in FDA's decision-making process for biotech products?

ANSWER: The Agency is not aware of any major regulatory or scientific obstacles to the introduction into the market of foods derived by new biotechnology approaches if firms communicate with FDA -- early and often -- to ensure that any relevant safety questions are answered. FDA's decision-making process for new foods and food ingredients is based solely on safety and does not include factors such as social or economic costs or benefits.

QUESTION. Are you aware of the European Economic Community Veterinary Regulatory Body's recent decision on BST? When do you expect a decision by FDA? How much time has your staff working directly on BST spent responding to public concern?

ANSWER. Yes, we are aware of the EEC Veterinary Regulatory Body's recent decision on BST. It is difficult to predict when and if BST will be approved in this country because so much of the timing is controlled by the quality and nature of the data submitted by industry and how quickly they respond to questions raised by FDA during the review process. During the past 3 years, approximately 20% of our BST review staff time has been spent on responding, either directly or indirectly, to public concern related to BST. This amount to about one person working full time on these issues and has had an impact upon the review time of BST.

FDA Enforcement

QUESTION. Does the focus on enforcement contribute to safer food and drugs?

ANSWER. Yes. The perception has been that increased FDA focus on product approvals caused less vigorous Agency enforcement of its laws and regulations, as evidenced by a relatively low number of FDA legal actions during that period. Such a perception would not be expected to foster voluntary compliance by industry. The deterrent effect of a strong FDA commitment to increasing surveillance and enforcement activities is well-recognized. For these reasons 78% of the program increases for FDA in the 91 President's Budget were for enforcement activities and 69% of the program increases in the 92 President's Budget are for enforcement.

QUESTION. Are you faced with massive misconduct?

ANSWER. Based on the Agency's findings over the past three years of investigating and inspecting the generic drug industry, we would characterize the misconduct as widespread, rather than massive.

User Fees

QUESTION. The concept of user fees raises some troubling questions. Will the public find assurance in a system of regulation paid for by the regulated industries? Are there ways you can better manage the resources you already have, before we go down the path of user fees? What is the fairest way to structure a user fee?

ANSWER. Senator, let me start with the part of your question about whether there are ways we can better manage the resources FDA already has before we ask for more through user fees.

Over 60% of FDA's appropriation goes to pay for salaries and benefits for our employees -- our most important and irreplaceable resource. But FDA's resources dropped by over twelve hundred FTE between 1979 and 1987 -- from 8179 in 1979 to 6973 in 1987. During this same period the AIDS epidemic arose and many new laws were enacted giving FDA substantial new responsibilities without resources to implement them. During

that period of extreme belt tightening, the agency went through many exercises in managing with reduced resources,, and any significant savings were achieved in this period. The truth is, I do not see any further potential for significant resource relief through improved management. Some marginal savings may accrue, and there are obviously quality enhancements that can and must be made, but additional resources are still essential to strengthen FDA to meet its public health and regulatory responsibilities. This is recognized by several outside studies of FDA and is affirmed by the President's budget request now before the Committee.

With respect to the first part of your question, I hope that the public will find assurance in a system of regulation paid for, at least in part, by the regulated industry. We will do our best to implement user fees in an environment that provides reasonable safeguards against abuse and against any possibility that the regulated industry has any improper influence on FDA.

With the final part of your question, I am not sure that we have the definitive answer. At the time the President's budget was submitted, it was our intention to collect $190 million from fees for product evaluation activities in all product areas -- drugs, devices, food additives, biological, and animal drugs -- and $7.5 million from new registration fees for land based seafood processors. Since the budget was submitted, however, we are working to be more flexible on just what activities we would charge for. An approach is being developed that would allow FDA to charge fees in three possible ways. The first is a product evaluation fee that would be similar to what we have previously proposed. The second is a registration fee that would be paid annually by all establishments subject to FDA regulation and inspection. The third is an assessment on the value of manufactured goods introduced into commerce each year.

This approach would allow the Secretary to set fees by any one, or a combination of, these methods; the fees would be set by notice and comment rulemaking. We are working hard, Mr. Chairman, to be flexible in our approach to user fees, in order to cooperate with Congress in trying to find an approach to user fees that meets Congressional concerns, but which at the same time does require those who benefit from Government services to pay for the costs of providing those benefits.

Nutrition Labeling and Education Act of 1990

QUESTION. The Nutrition Labeling and Education Act of 1990 (NLEA) provides that most of the labeling changes required by the bill will go into effect on the same dates, and as much as 42 months after the effective date. However, the bill requires that ingredient labeling changes will be implemented one year after the effective date on November 8, 1991. The conflicting effective dates seem likely to cause an extra and costly label change by the food industry. Does FDA plan to ask Congress to resolve this conflict and provide for a uniform effective date for all label changes required by the Act?

ANSWER. FDA has raised the existence of this conflict to the attention of Congressional staff but has received no indication that the NLEA will be amended to provide a single uniform effective date for all required label changes. The agency supports the concept of a uniform effective date, but must enforce the law as passed by Congress.

Staffing

QUESTION. It would seem that the most significant limitation in FDA enforcement over the last two decades has been the lack of staff resources. Is it appropriate to request additional enforcement authority?

ANSWER. Yes. Even if the Agency were optimally staffed and equipped, there are several enforcement authorities would significantly enhance FDA's effectiveness and protecting the public, including:

Expanded inspection and records access authority: All industries regulated by FDA are becoming increasingly complex. Production methods are more innovative and sophisticated. Product distribution is far-ranging and the patterns of distribution increasingly intricate. In this environment, FDA can have the knowledge it needs only if given expanded access to the manufacturing and distribution records of regulated companies.

In addition, FDA should be given access to records of commercial testing facilities in order to assure that results from such laboratories are valid. Likewise, FDA should be given authority to inspect manufacturers of containers for regulated products because the safety of a product (including low acid canned foods, infant formulas, human and animal drugs) often depends upon the integrity of its container.

Finally, the agency's authority to take photographs to document an inspection and its authority to collect samples during an inspection should be clarified.

Presumption of interstate commerce: FDA field personnel currently spend up to 25 percent of their sample collection time documenting a regulated product's connection with interstate commerce. A statutory presumption of interstate commerce, coupled with authority to seize violative products without regard to their relationship to interstate commerce, would free up some agency resources to do other work that more directly results in public health protection.

Recall authority: Recalls of violative regulated products are an important part of public health protection. The authority of federal district courts to order a product recalls as a component of injunctive relief should be clarified. In addition, the agency should be given the administrative authority to order a recall in cases of fraud or where the product in question poses a substantial risk to the public health. In the absence of such authorities FDA relies on "voluntary" recall actions through persuasions or public warnings, if necessary. Though FDA requests are usually honored, some regulated companies are not willing to conduct necessary recalls and, in many cases, companies do not even notify FDA of recalls they initiate on their own.

Expanded authority over imports: The volume of FDA-regulated products offered for import into the U.S. continues to increase. In order to prevent more effectively the entry of hazardous products into this country, FDA should be given the authority to order the destruction of goods refused entry that are hazardous to the public health.

Labeling Regulations

QUESTION. Labeling differences appear likely to result between USDA's recently proposed regulation and what FDA appears likely to require under the NLEA. What can be done to eliminate the differences between USDA and FDA labeling regulations?

ANSWER. FDA has established a very close working relationship with USDA, especially at the staff level. There are frequent meetings and exchanges of ideas between the two Departments. We have every reason to believe that the labeling activities and programs on the two Departments will be as consistent as possible to minimize possible confusion to the American consumer.

FARM CREDIT ADMINISTRATION

STATEMENT OF HAROLD B. STEELE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ACCOMPANIED BY BILLY ROSS BROWN, BOARD MEMBER

INTRODUCTION OF WITNESSES

Senator BURDICK. We will now hear from the Farm Credit Administration and the Farm Credit Assistance Board. Representing FCA are: Mr. Harold Steele, Chairman of the Board and Chief Executive Officer; and Billy Ross Brown, board member.

Representing the Farm Credit System Assistance Board is Ken Peoples, President and Chief Executive Officer.

Welcome, gentlemen.

In summary, FCA requests a budget for 1992 of $43,276,000, an increase of $2,378,000. The Assistance Board is requesting $2,175,000 in 1992, an increase of $158,000. We have your statements, Mr. Steele and Mr. Peoples. They will be made part of the record in full. I would like you to summarize them at this point and make any additional comments you would like.

Mr. Steele, you may proceed.

Mr. STEELE. Mr. Chairman, thank you. Thank you very much for this opportunity. With your direction, I will summarize this statement.

I would also like to say another word about Mr. Billy Ross Brown that you have identified. Since our meeting here a year ago, Mr. Brown has joined us on the board. He is a recognized farmer, rancher, and conservationist from Mississippi, and also he has over 20 years experience as a board member and chairman of a very large association with the Farm Credit Association. So Mr. Brown is adding a real dimension that is very meaningful. Also, I would like to say that he is a gentleman, an independent thinker and reasoner, and certainly a great addition to the board. I am very pleased that he is here and serving in this capacity.

SYSTEM STATUS

The Farm Credit System is continuing on the record of recovery. In 1987, it posted combined losses of $17.5 million. It reported earnings of $704 million in 1988, $605 million in 1989, and $608 million in 1990. During that same period, its nonaccrual loan volume was cut in half from $5.2 billion to $2.6 billion; very, very significant.

This is not to say that all system institutions are in good financial health or even that the system is nearing the end of the road to recovery. Some institutions are in strong financial condition, but others are fragile and will need several more good years before they can be deemed to be healthy financially.

While earnings have improved significantly and nonaccruals are decreasing, the best composite for a more thorough evaluation of financial health is the CAMEL ratings. Mr. Chairman, I draw your attention to chart A, which is in the back of the handout material of the testimony. Obviously, high-rated institutions require a greater degree of monitoring and supervisory attention; but as the financial performance figures cited earlier indicate, that monitoring and attention is paying dividends.

Further evidence of this can be found in a decrease of highly rated institutions. The percentage of System institutions rating 4 or 5 has dropped from 46 percent in 1986 to 34 percent in 1989. This year looks even better, but I must caution against too much optimism. While the percentage fell to 18 percent in 1990, the figures are a little misleading.

The System had a large number of mergers late in 1990. In addition to the 54 institutions now rated 4 and 5, there are also an additional 24 institutions which were rated 4 and 5 in 1989, which merged in 1990 and, therefore, have not yet been examined under their new structure. Presumably, a number of these 24 institutions would still be rated 4 or 5 if rated presently.

While there is still a larger percentage of adversely related institutions than we would like, we are pleased with the progress. In addition to a good agricultural economy in the past 4 years, the improvement can also be attributed to well-prepared reports by the examination team and the boards of directors using these reports to correct the deficiencies in their institutions.

SYSTEM STRUCTURE

Mr. Chairman, during the debate on the Agricultural Credit Act of 1987, a vast amount of time was spent debating ways for borrowers to retain local control. Farmers and ranchers put forth a great deal of effort to ensure that opportunities remain for local stockholders to retain decisionmaking. Emphasis was also placed on a need to reduce operating costs and the ability to provide one-stop shopping for the farmers and ranchers for their credit needs.

The Farm Credit System has undergone dramatic changes in its corporate structure since those debates of 1987. Chart B at the end of the testimony provides a good picture of what changes have occurred. A total of 317 association charters were canceled, issued, or amended between January 1, 1987 and December 31, 1990. Another 146 charter actions were taken during the first 3 months of 1991.

Chart B shows a marked movement away from Federal land bank associations and toward agriculture credit associations which offer both short- and long-term lending, and Federal land credit associations, which are direct long-term lenders.

I make this point in part to share with you a small portion of the answer to the question, Is the 1987 Agricultural Credit Act working?

Also, I believe it is important for you to be aware of the resources at the FCA dedicated to the charter changes over the past few years. As you know, FCA provides charter change approvals without an additional assessment to the System institutions requesting

those changes. This is not the case with other Federal financial regulators.

You may find chart C very informative. As you can see from this chart, each district has restructured in its own way. Some believe large associations with branch offices provide the best service to the borrowers, while others have opted to keep numerous associations throughout the district. Again, the map is very significant and informative in that regard.

FCA COST EFFICIENCIES

The FCA has undertaken several initiatives this past year to increase the efficiency of the agency without diminishing its effectiveness. I would like to share a few of those cost efficiency measures with you.

In mid-1990 we combined the former Office of Financial Analysis with the Office of Examination. This helped reduce the overlapping responsibilities occurring between the two offices and also helped us focus on improving the regulation development process.

In addition, the Office of Examination announced a change in 1990 in its overall configuration from four regions to three. Three OE field offices will also be closed in 1991. Part of the reason some of our costs were up this year was because of those closures. We offered each employee affected by the closures the opportunity to relocate to another FCA office. That meant transportation and relocation costs were higher than normal, but offering those individuals the opportunity to stay with FCA was of utmost importance.

The FCA should experience a long-term cost savings from this effort. In fact, the Farm Credit System Building Association estimates the closures will reduce FCA field expenses by $525,000 by 1993.

The effort at cost savings has been agencywide. Mr. Brown and I have agreed to give it our best shot to eliminate two executive assistant positions.

Another way we are attempting to reduce expenses is to have the Office of Regulatory Enforcement delegate some of its enforcement responsibilities to the Office of Examination. Under the previous method, anytime an enforcement action was employed, ORE personnel traveled to that institution to meet with the boards of directors—regardless of the severity of the action.

In addition, an offsite examination program has been implemented on a limited basis this year. This will allow us to shift examination resources to high risk institutions and reduce the scope of examinations at low risk institutions. Based on the results of the program so far, overall examination time has been reduced by an average of 53 percent.

Once fully implemented, an effective offsite examination program can result in a reduction in overall examination costs related to travel and personnel while maintaining adequate internal examination procedures to ensure System safety and soundness.

I have one final cost efficiency measure that I would like to mention. Quite possibly, it will have the biggest impact on the long run cost of this agency of all we have talked about today.

About 1 year ago we initiated a strategic planning process to ensure the best possible use of the FCA's financial and human re-

sources and to identify operational areas of priority. The strategic planning process is already an integral and inseparable part of the FCA's management and budget process.

FISCAL YEAR 1992 BUDGET REQUEST

Mr. Chairman, the FCA is requesting a budget of $42,552,448 for fiscal year 1992. When our budget was initially formulated and forwarded to the Office of Management and Budget for inclusion in the administration's budget submission, we were requesting over $43 million.

Since that time, we have implemented several measures to improve cost efficiency. Because of those actions, a reassessment of FCA's budget requirements was undertaken, and we now project that our original request can be reduced by 14 FTE's and the associated cost therein. We, therefore, reduced our budget request by $723,552. Our requested increase over the fiscal year 1991 budget limitation is 5.6 percent.

The largest increase is in the personnel-related costs, salaries, benefits, and travel. I call your attention to chart D. As you can see, we are a labor-intensive agency. Seventy-five percent of our budget request is in salaries and benefits with another 11 percent in travel expenses. The rest of the budget makes up only 14 percent of the total.

The FCA's budget request includes anticipated funds from two primary sources. The first is assessments on System banks, and the second is assessments to examine Farmer Mac.

Last year, the Agricultural Appropriations Conference Committee set a limit of $608,000 on the Farmer Mac assessment. The actual assessment totaled only $35,000 due chiefly to the fact that no loans were pooled and no securities issued.

Because we do not know the degree of activity that will take place in 1991, it is difficult to pinpoint examination costs. We are currently assuming that there will not be any Farmer Mac I pools to examine for fiscal year 1991 and, therefore, are estimating a $50,000 assessment. The statute requires the FCA to determine the amount of assessments that will be required to pay the cost of supervising and examining Farmer Mac. The FCA has adopted proposed regulations that provide for Farmer Mac to be assessed on the basis of estimated direct expenses of examination plus a proportionate share of indirect expenses.

Mr. Chairman, this highlights what the FCA has attempted to do in 1990 to ensure cost efficiency in the future as well as what we plan to do in fiscal year 1992. We believe the $42.552 million is necessary to attract and retain qualified individuals as well as to carry out our mandate to ensure the safety and soundness of the Farm Credit System and Farmer Mac.

Mr. Brown and I are now pleased and ready to answer any questions that you may pose.

Senator BURDICK. Mr. Brown, do you have any comments?

Mr. BROWN. No, sir; but I will answer any questions.

PREPARED STATEMENT

Senator BURDICK. Thank you, Mr. Steele. Your complete statement will be made part of the record.

[The statement follows:]

STATEMENT OF HAROLD B. STEELE

Mr. Chairman and members of the Subcommittee, I am Harold Steele, Chairman and Chief Executive Officer of the Farm Credit Administration (FCA). Billy Ross Brown, who joined the FCA Board on October 30, 1990, accompanies me. Both of us are available to answer questions at the end of my testimony.

The Farm Credit System (System) is continuing on the road to recovery. In 1987, it posted combined losses of $17.5 million. It reported earnings of $704 million in 1988, $605 million in 1989, and $608 million in 1990. During the same period, its nonaccrual loan volume was cut in half, from $5.2 billion to $2.6 billion.

This is not to say that all System institutions are in good health or even that the System is nearing the end of the road to recovery. Some institutions are very healthy now, but others are fragile and will need several more good years in agriculture before they could be deemed healthy.

While earnings have improved significantly and nonaccruals are decreasing, the best composite for a more thorough evaluation of financial health are the CAMEL ratings.

The FCA assigns each System institution a composite CAMEL rating based on each examination. The acronym CAMEL stands for Capital adequacy, Asset quality, Management and administration, Earnings, and Liquidity. The FCA rating system is similar to that used by most Federal regulators of financial institutions. It has been modified to reflect the nondepository and business lending nature of System institutions.

The ratings are on a scale of "1" to "5," with a "5" rating designating the most severe regulatory concern.

A "5" rating means that there is an extremely high immediate- or near-term probability of failure.

A "4" rating means that an institution has an immoderate number of serious financial or operating weaknesses. Potential for failure is present, but not yet immediate or pronounced.

Even a rating of "3" means that an institution exhibits a combination of financial, management, operational, or compliance weaknesses ranging from unsatisfactory to moderately severe.

Obviously, high-rated institutions require a greater degree of monitoring and supervisory attention. But as the financial performance figures cited earlier indicate, that monitoring and attention is paying dividends. Further evidence of this can be found in the decrease of highly rated institutions. The percentage of System institutions rated "4" or "5" has dropped from 46 percent in 1986 to 34 percent in 1989. This year looks even better, but I must caution against too much optimism. While the percentage fell to 18 percent in 1990, the figures are a little misleading. The System had a large number of mergers late in 1990. In addition to the 54 institutions now rated "4" or "5" there are also 24 institutions which were rated "4" or "5" in 1989, which merged in 1990 and, therefore, have not yet been examined under their new structure. Presumably, many of these 24 institutions will still be rated "4" or "5."

While there is still a larger percentage of adversely rated institutions than we would like, we are pleased with the progress. I draw your attention to Chart A attached to the testimony. In addition to a good agricultural economy the past 4 years, the improvement can also be attributed to well-prepared Reports of Examination and boards of directors using those reports to correct deficiencies in their institutions.

Mr. Chairman, during the debate on the Agricultural Credit Act of 1987, a vast amount of time was spent debating ways for borrowers to retain local control. Farmers and ranchers put forth a great deal of effort to ensure that opportunities remained for local stockholders to retain decision making. Emphasis was also placed on the need to reduce operating costs and the ability to provide "one-stop shopping."

The Farm Credit System has undergone dramatic changes in its corporate structure since 1987. A total of 317 association charters were canceled, issued, or amended between January 1, 1987, and December 31, 1990. Another 146 charter actions were taken during the first 3 months of 1991. These actions among associations are in addition to the 22 charter cancellations and 11 charter issuances that created the

11 Farm Credit Banks and the cancellations and modifications that created the National Bank for Cooperatives and expanded the territories of the St. Paul and Springfield Banks for Cooperatives. In addition, the charter of the Farm Credit Bank of Texas was amended, first to include the States of Alabama, Louisiana, and Mississippi for long-term lending, and then to include New Mexico for short-term lending due to the reassignment of three Production Credit Associations.

I draw your attention to Chart B, which shows a marked movement away from Federal Land Bank Associations and toward Agricultural Credit Associations (which offer both short- and long-term lending) and Federal Land Credit Associations (which are direct long-term lenders).

I make this point, in part, to share with you a small portion of the answer to the question, "Is the 1987 Agricultural Credit Act working?" In addition, I believe it is important for you to be aware of the resources at the FCA dedicated to charter changes over the past few years. As you know, the FCA provides charter change approvals without an additional assessment to the System institution requesting the change. This is not the case with other Federal financial regulators. I also think you may find Chart C very informative. As you can see, each district has restructured in its own way. Some believe large associations with branch offices provide the best service to borrowers while others have opted to keep numerous associations throughout the district.

The FCA has undertaken several initiatives in the last year to increase the efficiency of the agency without diminishing its effectiveness. Let me share a few of those cost-efficiency measures with you.

In mid-1990, we combined the former Office of Financial Analysis with the Office of Examination (OE). This helped reduce some overlapping responsibilities occurring between the two offices and has also helped us focus on improving the regulation development process.

In addition, the Office of Examination announced a change in 1990 in its overall configuration from four regions to three. Three OE field offices will also be closed in 1991. They are Louisville, Spokane, and Omaha. Part of the reason some of our costs were up this year was because of those closures. We offered each employee affected by the closures the opportunity to relocate to another FCA office. That meant transportation and relocation costs were higher than normal, but offering those individuals the opportunity to stay with the FCA was of utmost importance.

The FCA should experience a long-term cost savings from this effort. In fact, the Farm Credit System Building Association estimates the closures will reduce FCA field expenses by $525,000 in 1993.

With the new field office alignment, the agency has adopted a portfolio approach to examination. Rather than one FCA field office serving one System district, this approach may assign institutions in the same System district to different FCA field examination offices. The assignments are based on the most cost-effective means of conducting examinations rather than simply corresponding to Farm Credit District boundaries.

The effort at cost-saving has been agencywide. Billy Ross Brown and I have agreed to "give it our best shot" to eliminate two executive assistant positions.

Another way we are attempting to reduce expenses is to have the Office of Regulatory Enforcement (ORE) delegate some of its enforcement responsibilities to the Office of Examination. Under the previous method, any time an enforcement action was employed, ORE personnel traveled to the institution to meet with the boards of directors—regardless of the severity of the action.

ORE has instituted a policy to delegate its enforcement authorities to OE under the following conditions: the institution must be an association; the association must be rated "1," "2," or "3"; the association's total assets must not exceed $200 million; the delegation is used on supervisory letters or agreements only, not on cease and desist orders; and each delegation of authority to OE is approved on a case-by-case basis.

At this time, ORE has delegated to the Examination teams responsibility for 24 of the 90 associations under some kind of enforcement document. Hopefully, this will not only help reduce travel expenses, but also improve coordination between FCA and the institutions. Many institutions have already established a positive working relationship with the Examination personnel assigned to them, thereby enabling both FCA and the institutions to enhance that relationship rather than expanding it to additional personnel in ORE.

In a continuing effort to reduce costs and increase efficiency, an offsite examination program was implemented on a limited basis this year. This will allow us to shift examination resources to high-risk institutions and reduce the scope of examinations of low-risk institutions.

The statute requires the examination of each System institution, except FLBAs, at least annually. However, if the purposes of the examination function are fulfilled and the requirements of the statute are met, the scope and method of the examination process are within the agency's discretion.

In keeping with the FCA's policy to achieve maximum examination efficiency and effectiveness, the annual examination of some institutions may be conducted primarily offsite. Offsite examinations, however, will be used only where: prior years' examinations have determined that the institution has been capably managed; its financial condition and performance have been sound; and its asset quality and the administration of its loan portfolio have been at acceptable levels.

More specifically, offsite examinations are conducted only if: the institution's assets are less than $250 million; all components of its CAMEL rating are "1" or "2"; the prior year's examination was conducted onsite; and the institution has not been subject to an enforcement action for the prior three calendar years.

Based on the results of the program so far, overall examination time has been reduced by an average of 53 percent. Additionally, travel costs are reduced because fewer personnel and fewer trips to the institution are needed. Based on fiscal year 1990 examination figures, approximately 12 percent of FCS institutions are eligible for offsite examination.

Once fully implemented, an effective offsite examination program can result in a reduction in overall examination costs related to travel and personnel, while maintaining adequate internal examination procedures to ensure System safety and soundness.

I have one final cost-efficiency measure I want to mention today. Quite possibly, it will have the biggest impact on the long-run cost of this agency of all we have talked about today. About a year ago, we initiated a strategic planning process to ensure the best possible use of the FCA's financial and human resources and to identify operational areas of priority. The strategic planning process is already an integral and inseparable part of the FCA's management and budget process.

Some of the needs that prompted strategic planning were:

1. To define in measurable and objective terms what is most important and needs to be achieved by the agency;
2. To anticipate problems and take positive steps to eliminate them;
3. To build commitment and orientation to a common purpose among the members of the agency's senior management team;
4. To chart a clear direction and furnish "marching orders" for the agency and its employees to follow;
5. To ensure consistency in decision making and to allocate resources most effectively and efficiently;
6. To establish a firm basis for evaluating performance, both organizationally and individually; and
7. To provide a management framework that can be used to facilitate quick response to changed conditions, unplanned events, and deviations from the plan.

Through our strategic planning, the following program or project initiatives have been identified for fiscal year 1992:

—Complete the design and implementation of our financial management system.
—Continue testing and analysis of offsite examination techniques.
—Redirect the focus of examiner training from commissioning to post commissioning.
—Reexamine borrower rights provisions.
—Develop disclosure requirements to shareholders and investors.
—Implement general financing agreements between banks and associations.
—Work with the System to develop a workable plan for repayment of debt owed to the Farm Credit System Financial Assistance Corporation.

The agency must also maintain a state of readiness in the event additional System institutions become distressed, particularly if the agency becomes involved in a conservatorship or receivership.

Moreover, as System personnel become more sophisticated in the use of various financial instruments, FCA personnel must match that sophistication to give the institutions the flexibility needed while still ensuring safety and soundness.

Mr. Chairman, the FCA is requesting a budget of $42,552,448 for fiscal year 1992. When our budget was initially formulated and forwarded to the Office of Management and Budget for inclusion in the Administration's budget submission, we were requesting $43,276,000. Since that time, we have implemented several measures to improve cost efficiency. Because of those actions, a reassessment of the FCA's budget requirements was undertaken and we now project that our original request can be reduced by 14 FTEs (full-time employees) and associated costs. We therefore re-

duced our budget request by $723,552. Our requested increase over the fiscal year 1991 budget limitation is 5.6 percent.

The largest increase is in personnel-related costs—salaries, benefits, and travel. As you can see from Chart D, we are a labor-intensive agency. Seventy-five percent of our budget request is in salaries and benefits, with another 11 percent in travel expenses. The rest of the budget makes up only 14 percent of the total.

According to the Congressional Budget Office, Federal salaries lag those in the private sector by 20 percent. The Bureau of Labor Statistics puts the gap at 30 percent. All of Government must do something about this problem if we are to be able to continue to attract and retain quality personnel. There is, however, some relief possible for the Farm Credit Administration and other Federal regulators of financial institutions.

The Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 called for comparable compensation among Federal regulators of financial institutions. The FCA took a small step in that direction last year by granting all employees, except senior executives, a 3-percent salary increase. We also granted area cost-of-living differentials at four office locations.

In a further effort to improve comparability with other regulators, the FCA has initiated a job evaluation and salary administration study. The objective, in addition to complying with the provisions of the FIRREA to achieve comparable compensation, is to establish an equitable job evaluation and compensation program for all FCA employees. We expect the study to be completed in July, and we hope to implement its provisions in fiscal year 1992.

The FCA's budget request of $42.552 million includes anticipated funds from two primary sources: (1) assessments on System banks; and (2) assessments to examine the Federal Agricultural Mortgage Corporation (Farmer Mac).

Last year, the Ag Appropriations Conference Committee set a limit of $608,000 on the Farmer Mac assessment. The actual assessment totaled only $35,000 due chiefly to the fact that no loans were pooled and no securities issued. Because we do not know the degree of activity that will take place in 1991, it is difficult to pinpoint examination costs. We are currently assuming there will not be any Farmer Mac I pools to examine in fiscal year 1991 and are therefore estimating a $50,000 assessment.

The 1992 budget submission calls for one cap rather than two. If this Subcommittee wants to continue to set two caps, we would appreciate the opportunity to work with you to set a more realistic limit on Farmer Mac assessments in fiscal year 1992.

The statute requires the FCA to determine the amount of assessments that will be required to pay the costs of supervising and examining Farmer Mac. The FCA has adopted proposed regulations that provide for Farmer Mac to be assessed on the basis of estimated direct expenses of examination plus a proportionate share of indirect expenses.

In order to determine the cost of supervising and examining Farmer Mac for a fiscal year, the proposed regulations provide that direct expenses for the most recent full scope examination preceding each September 15 would be adjusted to reflect expected increases or decreases in FCA activity related to Farmer Mac for the next year. This would yield the estimated direct expenses for the examination of Farmer Mac for the ensuing fiscal year.

Direct expenses are examination expenses that can be identified and attributed to an FCA function regarding a specific institution, such as Farmer Mac. Thus, the direct expenses for FCA examination activity that can be identified as having been incurred solely in the conduct of Farmer Mac activities would form the basis for the annual assessment of Farmer Mac.

The FCA's indirect expenses for supervising and examining Farmer Mac would be determined on the basis of the estimated direct expenses for examining Farmer Mac as a percentage of the FCA's total budgeted expenses for examination. Indirect expenses include supervisory expenses and FCA's overhead and other expenses that cannot be broken down into amounts that directly correlate to the FCA's examination activity with respect to a specific institution, such as Farmer Mac.

Mr. Chairman, this highlights what the FCA has attempted to do in 1990 to ensure cost efficiency in the future as well as what we plan to do in fiscal year 1992. We believe $42.552 million is necessary to attract and retain qualified individuals as well as to carry out our mandate to ensure the safety and soundness of the Farm Credit System and Farmer Mac. Billy Ross and I will be pleased to respond to any questions you or the members of your Subcommittee may have.

Chart A

CAMEL Ratings of the Farm Credit System

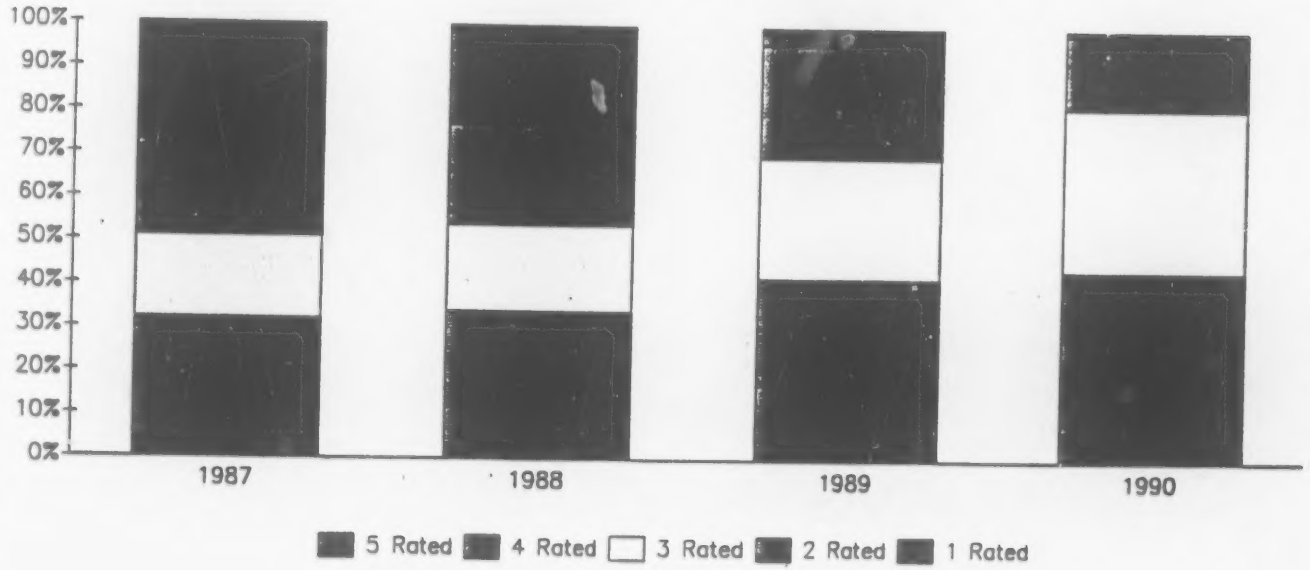
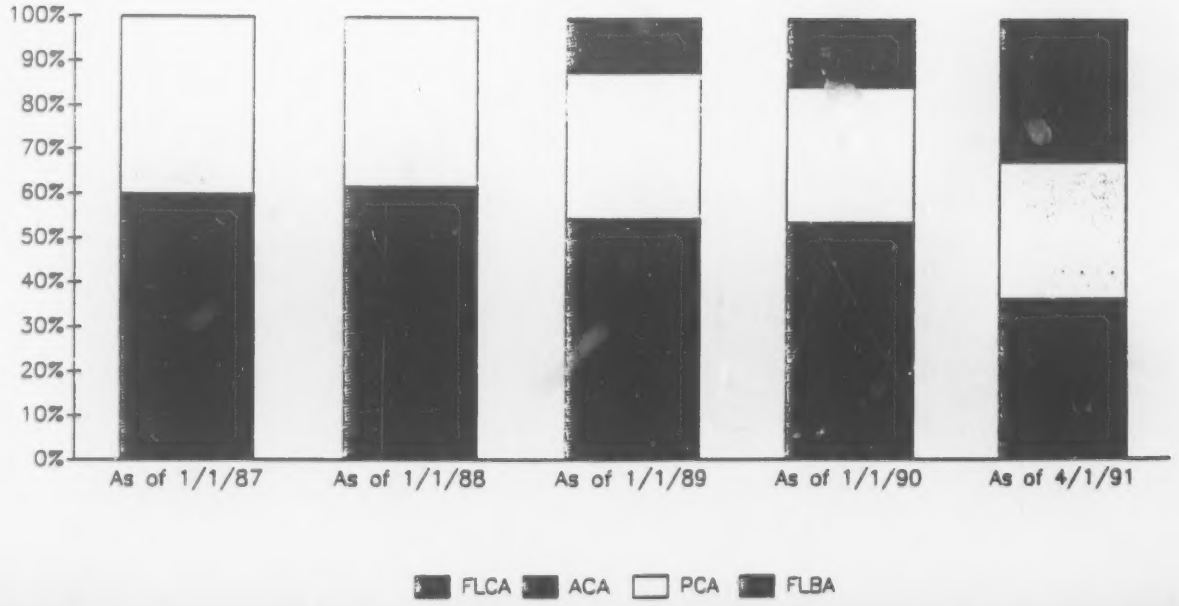


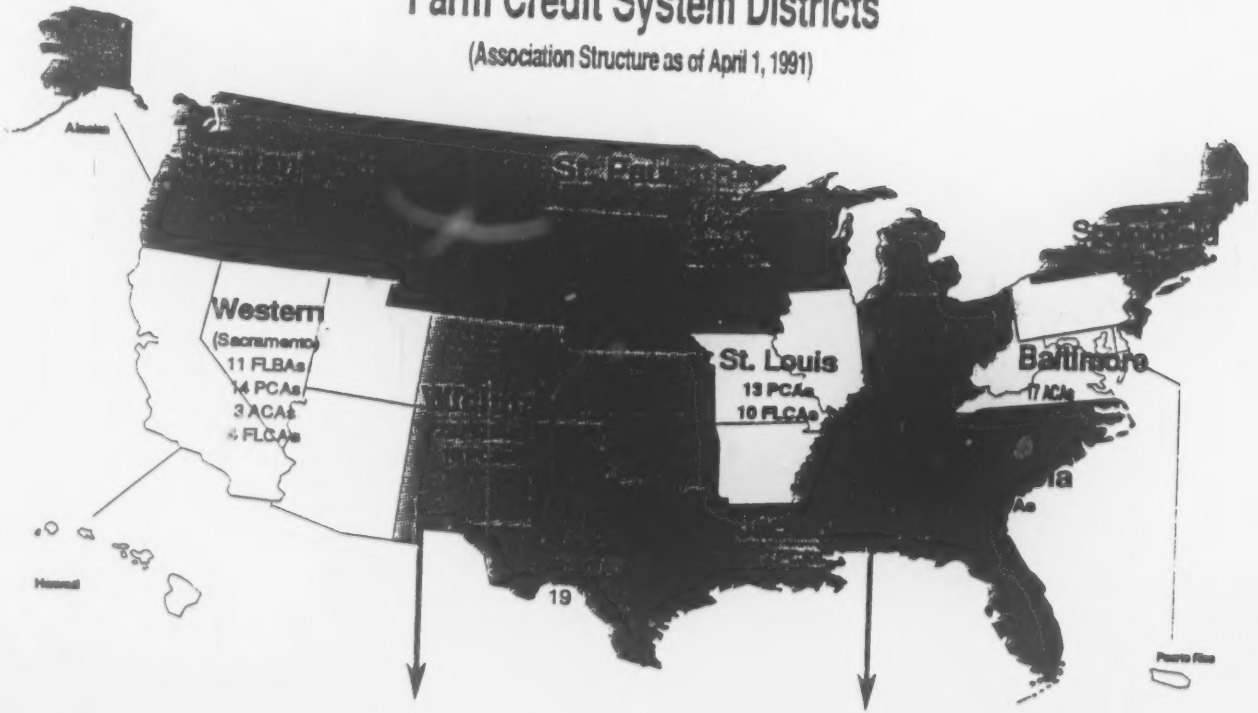
Chart B

The Changing Structure of the Farm Credit System



Farm Credit System Districts

(Association Structure as of April 1, 1991)



The Albuquerque, Eastern New Mexico and Southern New Mexico PCAs have been reassigned from Wichita to Texas.

Alabama, Louisiana, and Mississippi now have long-term lending with the Texas Farm Credit Bank and short- and intermediate-term lending with the Jackson FICB.

CAMEL RATINGS

12/31	1	2	3	4	5	Total Institutions Rated
1987	21 5%	114 27%	82 19%	94 22%	113 27%	424
1988	10 3%	93 31%	59 20%	67 23%	67 23%	296
1989	8 3%	99 39%	72 28%	67 26%	11 4%	257
1990	2 1%	84 43%	74 38%	34 17%	3 1%	197

THE CHANGING STRUCTURE OF THE FARM CREDIT SYSTEM

1/1	FLBAs	PCAs	ACAs	FLCAs	Total
1987	232 60%	155 40%	0 0%	0 0%	387
1988	232 62%	145 38%	0 0%	0 0%	377
1989	154 54%	94 33%	33 12%	2 1%	283
1990	146 53%	84 31%	40 15%	2 1%	272
1991*	95 36%	82 32%	66 25%	19 7%	262

*As of April 1

Farm Credit Association Charter Changes

Association Charters	1987	1988	1989	1990	1991*
Charters amended due to merger of like associations	9	12	4	2	3
Charters cancelled due to merger of like associations	12	56	4	0	20
Charters cancelled due to merger of unlike associations and liquidations	0	0	90	4	58
Charter changes (name, headquarters, county transfers, etc.)	10	11	28	4	3
New charters issued as result of mergers, reorganizations, and transfers of lending authority	0	2	42	27	62
Totals	**31**	**81**	**168**	**37**	**146**

*Reflects charter activity through April 1, 1991.

Farm Credit Bank Charter Changes

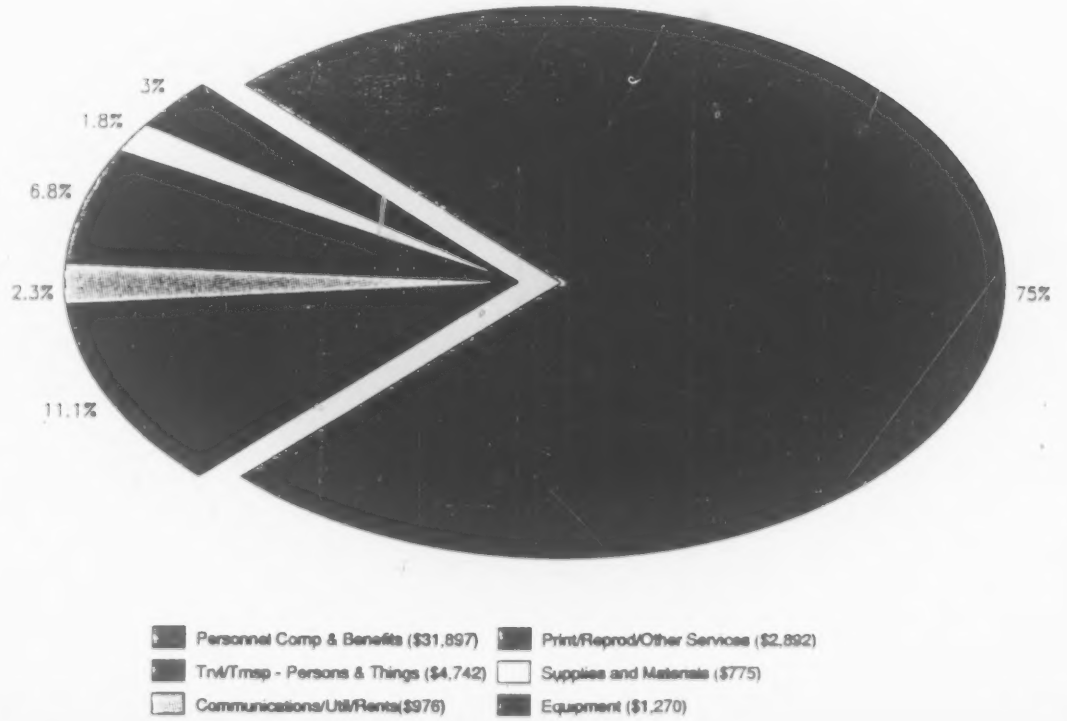
Bank Charters	1987	1988	1989	1990
Charters cancelled due to mergers	0	22	11	0
Charter changes (name, headquarters, lending territory)	0	0	1	1
New charters issued	0	11	3*	0
Totals	**0**	**33**	**15**	**1**

*BC charters for Springfield and St. Paul issued retroactively to 1/1/89.

Chart D

FCA Administrative Expenses

FY1992 Estimated (Dollars in Thousands)



FARM CREDIT ADMINISTRATION
Administrative Expenses
(Dollars in thousands)

OBJECT CLASS	FY 1991 Budget	Change	FY 1992 Estimated
Total personnel compensation	$30,582 76%	$1,315	$31,897 75%
Travel and transportation of persons	3,949 9.8%	694	4,643 10.9%
Transportation of things	238 .59%	(139)	99 .23%
Communications, utilities, and other rents	929 2.3%	47	976 2.3%
Printing and reproduction	136 .34%	(10)	126 .3%
Other services	2,716 6.7%	50	2,766 6.5%
Supplies and materials	695 1.7%	80	775 1.8%
Equipment	1,045 2.6%	225	1,270 3%
TOTAL OBLIGATIONS	$40,290	$2,267	$42,557

FARM CREDIT SYSTEM ASSISTANCE BOARD

STATEMENT OF KENNETH L. PEOPLES, PRESIDENT AND CHIEF EXECUTIVE OFFICER

ASSISTANCE TO SYSTEM INSTITUTIONS

Senator BURDICK. Mr. Peoples.

Mr. PEOPLES. Thank you, Mr. Chairman. I am very pleased to be with you this morning to talk to you about the financial recovery progress of the assisted Farm Credit System institutions.

The Farm Credit System's financial picture is much different today than it was when the Assistance Board was established just over 3 years ago. At that time, some felt the Farm Credit System was on the verge of financial collapse. Today, I am pleased to be able to report that significant strides have been made by the assisted banks toward long-term financial viability.

To date, the Assistance Board has used $1.261 billion of the $4 billion originally authorized by Congress. Of this total, $419 million has been provided to the four System banks that have been certified to receive assistance: the Farm Credit Banks of Louisville, St. Paul, Omaha, and Spokane. The Federal Land Bank of Jackson and the Federal Land Bank of Jackson in Receivership received $388 million.

Another $417 million was used to fund intra-System capital preservation agreements, and $16 million was used to redeem eligible borrower stock in liquidating institutions. The remainder, $21 million, has gone to various assistance-related expenses or remains in the farm credit assistance fund.

For the last 2 years of the Assistance Board existence, the Office of Management and Budget forecasts additional expenditures of $800 million. We hope the amount necessary will be far less.

ASSISTED INSTITUTIONS' FINANCIAL RESULTS

Over the past year, all assisted institutions have outperformed their respective business plans in most categories. For example, each assisted institution now has positive net operating income. Combined net operating income for the assisted banks rose from a negative $202 million in 1987 to a positive $89 million in 1990. This is due in part to an increase in net interest income, which rose from negative $11 million in 1987 to $239 million last year.

Capitalization levels have also improved. Two of the certified banks surpassed the Farm Credit Administration's 7 percent permanent capital standard, and a third projects to meet that standard in 1991. The more recently assisted Farm Credit Bank of Spokane projects that it will meet its interim capital standard this quarter and the permanent capital standard before the December 31, 1992 deadline. Perhaps more importantly, though, those certi-

fied banks which have met regulatory capital adequacy requirements have set aside a portion of their earnings to repay the financial assistance they have received.

Although nonaccrual loans have decreased dramatically from their 1987 peak of $2.2 billion, they did rise slightly last year to $979 million from the 1989 level of $902 million. This increase was primarily in response to an FCA high-risk asset accounting guidance issued in 1990.

Also showing a significant decrease is the four-bank total of acquired properties which has fallen from $403 million in 1987 to $135 million at yearend 1990.

Total high-risk loans which includes nonaccrual loans and restructured loans also declined from their peak in 1987 of $4.9 billion to $3.2 billion at yearend. Clearly, the boards and managements of these banks deserve a great deal of credit for the progress they have made over such a relatively short period of time.

I would be misleading you, however, if I did not note that concerns still remain. The level of high-risk loans, for example, is still excessive and serves to remind us that financial recovery is not yet complete.

PREPARING FOR THE FUTURE

Because of the inherent risks involved in being a single sector lender, the Farm Credit System will be always somewhat captive to the cyclical variations in the agricultural economy. In addition, general economic downturns, crop failures, reduction in Government farm program support levels, and increased competition from other lenders could combine to erase the gains we have seen over the last 3 years. It is therefore very important that the banks use their good years to prepare for the eventual return of bad ones.

As Assistance Board member William Erwin told the eighth annual meeting of the Farm Credit Council, "Now is not the time to relax, now is the time to get ready."

To prepare for difficult times ahead, assisted institutions have reduced operating costs by over $40 million from 1987 to 1990. Further significant cost reductions are needed, but they may not occur without consolidation or merger of districts.

As you are aware, four System banks, including two assisted banks, have recently expressed a renewed interest in consolidation. These four banks are diligently evaluating their alternatives but do not expect to reach a decision in the immediate future. Other district banks are also considering a consolidation or merger, and many associations have already merged or are finalizing merger plans.

We believe this is a step in the right direction. As lending margins narrow and competition increases, it will be critical that the system find the optimum organizational structure through which to provide efficient credit delivery to farmers, ranchers and cooperatives across the Nation.

The System has also made significant progress in improving its lending standards and practices by adopting cash-flow based loan making criteria rather than relying solely on real estate values.

Finally, System banks must continue to strengthen their skills in asset/liability management. Over the past 3 years they have suc-

ceeded in reducing their exposure to volatile interest rates. They will be well-served to pursue market innovation and to take advantage of the latest financial products and techniques available to them in order to manage their interest rate risk most effectively.

Without these continued improvements in cost structure, credit standards, and asset/liability management, the System unnecessarily exposes itself to economic volatility in the agricultural sector and jeopardizes the financial progress it has made.

ASSISTANCE BOARD'S OPERATING BUDGET

Before I close, Mr. Chairman, let me say a word about the Assistance Board's operating budget. As you know, we do not use appropriated funds but rely on the proceeds of FAC bond sales to fund both the financial assistance we give certified banks, as well as our own operating expenses.

The Assistance Board has been very cognizant of its own internal administrative budget. We have tried to operate in a conservative manner and have even succeeded in being able to return unused funds in prior fiscal years. For fiscal year 1992, the Assistance Board proposes a budget of $2.175 million. This represents $158,000 or a 7-percent increase over fiscal year 1991 and is due to the rising costs associated with travel to assisted institutions, as well as normal personnel cost increases.

Mr. Chairman, I thank you and your colleagues for your attention today. In closing, let me repeat that the Assistance Board is pleased with the progress made by the certified banks and remains cautiously optimistic about the future. We believe there is a great need for the Farm Credit System and that by continuing to build on the sound financial principles it has instituted, the System will be providing farmers and ranchers with a strong, reliable source of competitive credit.

PREPARED STATEMENT

Senator BURDICK. Thank you, Mr. Peoples. We have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF KENNETH L. PEOPLES

Good afternoon, Mr. Chairman and members of the subcommittee. I am Ken Peoples from the Farm Credit System Assistance Board (Assistance Board). Thank you for this opportunity to discuss with you the financial condition of assisted Farm Credit System institutions.

I would like to provide a brief update on the progress made by the assisted banks during the past year, as well as what we expect in the future. I will also briefly discuss the Assistance Board's operating budget before answering any questions you might have.

The Farm Credit System's financial picture is much different today than it was when the Assistance Board was established just over three years ago. At that time, some felt the System was on the verge of financial collapse. Today, I am pleased to be able to report that significant strides have been made by the assisted banks toward long-term financial viability.

To date, the Assistance Board has used $1.261 billion of the $4 billion originally authorized by Congress. Of this total, $419 million has been provided to the four System banks which have been certified to receive assistance: the Farm Credit Banks of Louisville, Omaha, St. Paul and Spokane. The Federal Land Bank of Jackson and the Federal Land Bank of Jackson in Receivership received $388 million. Another $417 million was used to fund intra-System capital preservation agree-

ments, and $16 million was used to redeem eligible borrower stock in liquidating institutions. The remainder, $21 million, has gone to various assistance-related expenses or remains in the Farm Credit Assistance Fund. For the last two years of the Assistance Board's existence, the Office of Management and Budget forecasts additional expenditures of $800 million. We hope the amount necessary will be far less.

Over the past year, all assisted institutions out-performed their respective business plans in most major categories. For example, each assisted institution now has positive net operating income. Combined net operating income for the assisted banks rose from a negative $201.7 million in 1987 to a positive $88.7 million in 1990. This is due in part to an increase in net interest income, which rose from negative $11.2 million in 1987 to $239.3 million last year.

Capitalization levels have improved. Two of the certified banks surpassed the Farm Credit Administration's (FCA) 7 percent permanent capital standard and a third projects to meet the standard in 1991. The more recently assisted Farm Credit Bank of Spokane projects that it will meet its interim capital standard this quarter and the permanent standard before the December 31, 1992, deadline. Perhaps more importantly, those certified banks which have met regulatory capital adequacy requirements have set aside a portion of their earnings to repay the financial assistance they have received.

Although nonaccrual loans have decreased dramatically from their 1987 peak of $2.22 billion, they rose slightly in 1990 to $979 million from the 1989 level of $902 million. This increase was primarily in response to a FCA high-risk asset accounting guidance issued in 1990. Also showing a significant decrease is the four-bank total of acquired properties which has fallen from $403 million in 1987 to $135 million at the end of 1990.

Total high-risk loans, which includes nonaccrual loans and restructured loans, also declined from their peak in 1987 of $4.9 billion to $3.2 billion at yearend.

Clearly, the boards and managements of these banks deserve a great deal of credit for the progress they have made over such a relatively short period of time. I would be misleading you, however, if I did not note that concerns remain. The level of high-risk loans, for example, is still excessive and serves to remind us that financial recovery is not yet complete.

Because of the inherent risks involved in being a single sector lender, the Farm Credit System will always be somewhat captive to the cyclical variations in the agricultural economy. In addition, general economic downturns, crop failures, reductions in government farm program support levels, and increased competition from other lenders could combine to erase the gains we have seen over the last three years. It is therefore very important that the banks use their good years to prepare for the eventual return of bad ones. As Assistance Board member William Erwin told the eighth annual meeting of the Farm Credit Council, "Now is not the time to relax, now is the time to get ready."

To prepare for difficult times ahead, assisted institutions have reduced operating costs by almost $40 million from 1987 to 1990. Further significant cost reductions are needed, but may not occur without consolidation or merger of districts. As you are doubtless aware, four System banks, including two assisted banks, have recently expressed a renewed interest in consolidation. These four banks are diligently evaluating their alternatives, but do not expect to reach a decision in the immediate future. Other district banks are also considering consolidation or merger and many associations have already merged or are finalizing merger plans.

We believe this is a step in the right direction. As lending margins narrow and competition increases, it will be critical that the System find the optimum organizational structure through which to provide efficient credit delivery to farmers, ranchers and cooperatives across the nation.

The System has also made significant progress in improving its lending standards and practices by adopting cash flow-based loan making criteria, rather than relying solely on real estate values. These standards must be implemented uniformly across districts if the banks are to maintain adequate income in the coming years.

Finally, System banks must continue to strengthen their skills in asset/liability management. Over the past three years they have succeeded in reducing their exposure to volatile interest rates. They will be well served to pursue market innovation and to take advantage of the latest financial products and techniques available to them in order to most effectively manage interest rate risk.

Without these continued improvements in cost structure, credit standards and asset/liability management, the System unnecessarily exposes itself to economic volatility in the ag sector and jeopardizes the financial progress it has made.

For anyone who may not be familiar with the Assistance Board, I would like to provide a brief sketch of our organization and its function. Created by the 1987 Ag-

ricultural Credit Act, it is the Assistance Board's task to help ensure that System institutions that have been certified to receive assistance make progress toward long-term financial health. The Assistance Board has a small staff and is headed by a three-person Board of Directors whose members currently include Secretary of Agriculture Ed Madigan, Secretary of the Treasury Nicholas Brady, or his designee, and farmer and Presidential Appointee Will Erwin.

The Assistance Board provides financial assistance, if necessary, to capital-impaired institutions of the Farm Credit System. The Assistance Board reviews the financial conditions of any System banks that are experiencing financial weakness in order to be ready to provide assistance if the institution's capital becomes impaired. In addition, the Assistance Board monitors and analyzes the financial progress of assisted institutions on a monthly basis by comparing their actual progress against the results projected in their annual business and recovery plan.

The Assistance Board regularly visits each certified bank to meet with its board and management, and FCA field examiners. We continue to meet with farmers and ranchers across the country to solicit their opinions on the System's service and structure. These meetings are vital to our decision making and monitoring processes.

Appropriated funds are not used to support the Assistance Board's operation. Instead, we depend on the proceeds of Farm Credit System Financial Assistance Corporation (FAC) bond sales to fund both the financial assistance we provide and our own operating expenses. FAC bonds are guaranteed by the Secretary of the Treasury and therefore enjoy significantly lower rates than non-U.S. government-backed bonds.

FAC bonds have a 15-year maturity and pay interest semi-annually. Interest payments on those FAC bonds which are used to fund assistance packages and retirement of eligible borrower stock are made solely by the Treasury for the first five years. For the second five years, interest is split nominally by the Treasury and the System. The remainder of interest and, upon maturity, the principal is funded by the System. All interest initially funded by the Treasury will be repaid by the System.

Some FAC bonds were sold to fund other types of assistance authorized as part of the old System Capital Preservation Agreements. All interest and principal payments on these bonds are made by the System. I have attached a table showing the amount, uses, and repayment of FAC bonds already sold.

Before I close, Mr. Chairman, please let me say a word about the Assistance Board's operating budget. As you know, we do not use appropriated funds, but rely upon the proceeds of FAC bond sales to fund both the financial assistance we give certified banks, as well as our own operating expenses.

The Assistance Board has been very cognizant of its own internal administrative budget. We have tried to operate in a conservative manner and have even succeeded in being able to return unused funds in prior fiscal years. For fiscal year 1992, the Assistance Board proposes a budget of $2.175 million. This represents a $158,000, or 7 percent, increase over fiscal year 1991 and is due to the rising costs associated with travel to assisted institutions, as well as normal personnel cost increases.

Mr. Chairman, I thank you and your colleagues for your attention today. In closing, let me repeat that the Assistance Board is pleased with the progress made by the certified banks and remains cautiously optimistic about the future. We believe there is a great need for the Farm Credit System and that, by continuing to build on the sound financial principles it has instituted, the System will be providing farmers and ranchers with a strong, reliable source of competitive credit for years to come.

FINANCIAL ASSISTANCE CORPORATION BONDS

[Purpose, amount, and repayment as of December 31, 1990]

Use of proceeds	Amount	Payment of interest	Repayment of principal
Third quarter 1986 capital preservation cash outs for Louisville, Omaha, St. Paul, Jackson, St. Louis, and Wichita.	$417,174,036	System banks	System banks.
Provide financial assistance	807,286,887	U.S. Treasury and system institutions.	Assisted institutions.
Retirement of eligible protected borrower stock	15,026,795	do	System institutions.
Assistance Board expenses	4,841,900	do	Do.
Debt issuance costs	8,317,124	do	Do.
Interest on promissory notes	1,663,498	do	Do.

FINANCIAL ASSISTANCE CORPORATION BONDS—Continued

[Purpose, amount, and repayment as of December 31, 1990]

Use of proceeds	Amount	Payment of interest	Repayment of principal
Prefunding	7,869,760	U.S. Treasury	Financial Assistance Corporation.
Total FAC	1,261,000,000		

Bonds Issued

9⅜ percent bond due 7/21/2003	$450,000,000
9.45 percent bond due 11/21/2003	240,000,000
9½ percent bond due 4/16/2004	157,000,000
8.80 percent bond due 6/10/2005	325,000,000
9.20 percent bond due 9/27/2005	89,000,000
Total	1,261,000,000

NOTE: Amounts have been rounded to the nearest dollar. Chart compiled from Financial Assistance Corporation documents.

BOARD MEMBERS

Senator BURDICK. Mr. Steele, when was the last time the board had three members, and what are the prospects for having three members in the near future?

Mr. STEELE. Since I have been with FCA, we have not had three board members, Mr. Chairman. The last time FCA had three board members was November 1988.

We had high hopes in October 1990 for three board members when Mr. Brown joined us, but the third candidate did not arrive. I know the White House is thinking positively on some new candidates, but I certainly do not know when a person will join us. I hope soon.

Senator BURDICK. I will yield to Senator Cochran.

Senator COCHRAN. Mr. Chairman, I am able to report to the committee that I received a letter from the nominee whose name was submitted to the Senate for confirmation by the President at the same time Mr. Brown's name was submitted. He stated that he has asked the President to withdraw his name and to submit another candidate. So I am expecting, as Mr. Steele suggested, that we will see the White House moving quickly to nominate another person.

It has been a disadvantage for the current members to serve without a full board. It is an unfortunate circumstance, but I think it will be overcome soon.

Mr. STEELE. Thank you, Senator Cochran.

Mr. Chairman, I was at the White House yesterday talking with some of the personnel people, and they have some names that they are very serious about.

JACKSON FICB AND TEXAS FCB

Senator COCHRAN. Mr. Chairman, I appreciate your recognizing me. I have a couple of questions that I am going to submit for the record for the Chairman of the Farm Credit Administration to answer for us.

I wonder if you have had an opportunity to make any decision about what role, if any, FCA should play following the court deci-

sion that affected the merger between the Jackson Federal Intermediate Credit Bank and the Texas Farm Credit Bank? What role do you see for the FCA to assist in resolving this situation?

Mr. STEELE. Senator Cochran, we have looked at our position following the recent decision by the court. That court made a decision not to agree with FCA's position of some years ago when FCA directed the Federal Intermediate Credit Bank of Jackson to join the Texas bank.

So we find ourselves today in the same position as when a former board member made that decision when he was alone nearly 2 years ago. We are back in that same slot. We know that we cannot make the same decision again because the courts have ruled that is an improper one.

The options are few. One of the options, of course, is to send it back to Congress, as Congress decided originally in the 1985, 1986, and 1987 procedures when they looked at the whole Farm Credit System and decided that each of the short- and long-term credit banks should join together to create a Farm Credit Bank with both long- and short-term credit availability.

That was all accomplished with the exception of the Federal Intermediate Credit Bank of Jackson. It did not happen there because the Federal Land Bank of Jackson went into receivership. That is the whole nucleus of the problem, and so we find ourselves now without adequate opportunities from the existing law to make the kind of decisions that normally a regulator would make.

Senator COCHRAN. I appreciate your response. I know you have been giving this a good deal of thought in trying to come up with options and what might be the appropriate way for the FCA to proceed. I wish you well, and we will be following this very closely.

As you know, it is very important to the borrowers in the State of Mississippi. There are some folks on both sides of this issue down there, as you understand.

In conclusion, Mr. Chairman, I also want to compliment the witnesses for their testimony and express appreciation for their coming here today and helping make our record on the budget request for the next year.

I am especially pleased to welcome to the committee Billy Ross Brown from my State of Mississippi as a member of the Farm Credit Board.

Mr. Steele, I congratulate you on the continued good job you are doing. We appreciate that. I have not yet had the opportunity to get to know Mr. Peoples as well as you, but we appreciate your testimony.

Thank you, Mr. Chairman.

SYSTEM INSTITUTIONS

Senator BURDICK. Thank you.

I note that with the recent mergers and changing structure of the Farm Credit System, it seems to be getting more complicated. We used to have Production Credit Associations and Federal Land Bank Associations, we now have in addition to the PCA's and FLBA's Agricultural Credit Associations, ACA, and Federal Land Credit Associations, FLCA.

Is it correct to assume that an ACA is simply a merger of a PCA and a Land Bank?

Mr. STEELE. Mr. Chairman, when I first came, I found one of my greatest challenges was to straighten out all of these various combinations. Each of these combinations are the result of the effort and the willingness and desire of the stockholders and those representatives of the stockholders and boards of directors.

The ACA's are growing in number. The ACA's offer both short- and long-term lending and in many instances are proving to be very successful in their structure and in their endeavor. Again, as we look at chart C, we can conclude that the users of the System and the owners of the System, the stockholders, have various thoughts around the country.

I draw your attention, for instance, to the Columbia Bank. There we see that whole area made up of 19 ACA's. At the same time, we go to the St. Paul Bank, where we see a configuration of FBLA's, PCA's, ACA's, and FLCA's. So it is still alphabet soup across the Nation as we think of these various configurations.

Again, it is at the direction and the pleasure of the farmers and ranchers as to what they believe serves them the best.

COST OF REGULATION

Senator BURDICK. The number of Farm Credit System institutions has decreased from 387 in 1987 to 262 in 1991. Does the reduced number of institutions result in savings from a regulatory point of view due to fewer entities to audit? Is the regulation less cumbersome as a result?

Mr. STEELE. Mr. Chairman, often times statistics such as you enumerated would suggest that a lesser number should realize fewer hours needed for examination. Basically, that is true. But as I pointed out in the testimony, as these numbers have changed and diminished, the Farm Credit Administration has responded to that reconfiguration by closing some offices for the examination team. The examination team represents about 70 percent of our total work force. Absolutely, we will realize then a lower overhead for that exam team as it becomes more efficient.

The other point is that of offsite examination. The law is very specific that the FCA must examine each of the institutions except the Federal land bank associations, each and every year. We can create further efficiency if, in fact, the offsite examination proves to be of value and proves to get the results to comply with the law.

Offsite examinations are considered only when an institution has individual CAMEL ratings of 1 or 2, total assets less than $250 million, and has not been subject to an enforcement action for the prior 3 calendar years.

Offsite examinations should create several opportunities for greater efficiency. Some have already been practiced and will soon be realizing a dollar benefit which will mean a lower cost to the end user, the farmer, and the rancher. Other areas of efficiency can well bring some additional savings.

ASSISTANCE NEEDS

Senator BURDICK. Mr. Peoples, do you currently have any requests for assistance pending before you?

Mr. PEOPLES. No, Mr. Chairman, we do not.

Senator BURDICK. Are you expecting the board to provide any additional assistance to institutions this year? If you can estimate that, I would also like to know if you have an estimate for 1992.

Mr. PEOPLES. Well, as you know, Mr. Chairman, the OMB has an estimate of a need of assistance over the next couple of years of $800 million. Currently looking at the current assisted institutions, I have detailed before you the current financial progress of those assisted banks. We review their annual business plans and approve them, and the projections that they have in those business plans suggests that that progress will continue over the next couple of years.

Based on our experience with the management in charge of those banks, we do not have reason to believe that they will not be able to meet their projections. Nevertheless, there could be unforeseen circumstances that could cause the financial recovery to get off track. There are still over $3 billion of high risk assets in the assisted banks, and if there are significant economic downturns financial recovery could be very fragile, indeed.

So it is difficult at this point to project at all the assistance needs that we may have over the next fiscal year.

Senator BURDICK. What do you think the chances are that no additional assistance will be needed between now and the board's termination on December 31, 1992?

Mr. PEOPLES. I would hope that the financial recovery continues such that no additional financial assistance is needed. But at this point because of the uncertainties which I suggested, it is impossible to predict that that will become a reality.

SYSTEM FAILURES

Senator BURDICK. Mr. Chairman, in yesterday's Wall Street Journal, the Farm Credit Administration is reported to have stated that 30 percent of the 313 institutions of the system faced possible failure in 1990. Yet, it is my understanding that neither the System nor the Assistance Board nor FCA is expecting the System to use any additional financial assistance and that about 97 percent of the System's institutions have met the 7 percent capital requirements that FCA has established for them.

Should this committee be concerned that there is an imminent problem in the system which is being reported to the press and not to this committee?

Mr. STEELE. Mr. Chairman, I have heard of this report in the Wall Street Journal, and it appears as if someone has extracted from the testimony that I have given here this morning and before the House Appropriations Subcommittee on Monday. It was taken out of context, and it does not give either the message that we submitted to the House Appropriations Subcommittee or to you today.

It is unfortunate that someone did extract those figures, for it does not give the correct story. Again, it appears to be out of context. We did not submit it to the Wall Street Journal, and I feel

rather certain that no one else from FCA did. This is the only presumption that we can make.

INSPECTOR GENERAL AUDITS

Senator BURDICK. I have now, Mr. Steele, a few questions submitted to me by Senator Glenn, and I will present them to you.

Senator Glenn has brought a matter to my attention regarding FCA's Office of the Inspector General. We would like to ask you a few questions on that matter on behalf of Senator Glenn.

The OIG recently concluded an audit of the Office of Resource Management, ORM, which identified nearly $300,000 in questioned costs involving computer-related purchases within FCA.

Mr. Steele, you have criticized the timeliness and the lack of questioning of expenditures in audits completed by the OIG, yet you have granted two 15-day extensions to the established 45-day response time to the ORM for reviewing this audit.

Can you explain the reasoning behind such actions?

Mr. STEELE. Yes; I would be pleased to.

There are several things, Mr. Chairman, that I think need to be explained. First of all, the audit referred to is in progress. I have not seen the audit. The office director referred to in your question is in the process of answering questions posed to him by the inspector general. The audit is midway in process. I cannot address myself to the issue because I have not seen it. I will see the audit when it is complete.

Second, it seems very inappropriate that an audit halfway through the process would be released outside the agency. I have not seen it. The inspector general reports to the chairman. The inspector general has not given me the report because he is not able to give me the report until it is finished. So I am rather amazed, shocked, and disappointed that such information would be released when it is incomplete.

As you know, once the inspector general receives a response from the office director, then the inspector general can change his report accordingly if it seems appropriate to him. That is when the report is finished and I receive it. Then I would be in a position to respond.

INSPECTOR GENERAL BUDGET

Senator BURDICK. Continuing the questions of the Senator from Ohio, in January of this year you provided each department with its fiscal year 1991 budget. The OIG budget was reduced by 17 percent while all other departments within FCA received increases, with one such department receiving an increase in excess of 60 percent. FCA received an overall increase of 12 percent.

Can you explain why the OIG's budget was reduced when the FCA is increasing its spending and, therefore, increasing the need for the audit programs to help identify questionable costs?

Mr. STEELE. Mr. Chairman, I am not in a position to answer the various percentages. I would be very pleased to respond to the full dimension of the question in writing. There are a few things that I think would be important to add to the question.

First of all, I think it is significantly important for an agency to have in its ranks a professional, reportable to the chairman, but acting on an independent basis, in the position of inspector general. It is very important not only to the agency but also to the Senate, the House, and to the executive branch of Government to know exactly what is going on in an agency. The inspector general can be very beneficial in this regards.

So I would simply say in the broad scope of things that I can assure the chairman and this committee that I would not take an action to deplete resources for the Inspector General's Office that inhibit that office from performing its responsibility; but again, I will answer the question in specifics in writing.

[The information follows:]

The OIG's budget was adjusted by about 17 percent in November 1990 for FY 1991 when the FCA adjusted its budget to the final level of spending limitation approved by the Congress. By the time the FCA's budget was final, the Inspector General had made some staffing decisions which resulted in a net decrease of two positions from the plan in his office, including one senior executive position. Budgeted salaries and benefits were adjusted accordingly and account for the overall adjustment.

INSPECTOR GENERAL REVIEW

Senator BURDICK. Continuing the questions of Senator Glenn, during 1990 you authorized the hiring of the consulting firm of Riso & Dempsey to review the OIG. As you are aware, the review concluded that "the inspector general has demonstrated impressive leadership ability and that the OIG audit function with minor exceptions as noted is being carried out in compliance with GAO audit standards and with guidelines issued by the President's Council on Integrity and Efficiency."

Yet, your evaluation of the inspector general in his yearly performance evaluation for 1990 was "minimally successful."

Can you provide insight as to why this apparent contradiction has resulted?

Mr. STEELE. I would be very pleased to, Mr. Chairman.

In the first place, Riso & Dempsey was secured by our Agency after we had gone to GAO to request they perform an audit of the OIG. It seemed very important to the agency that we have outside eyes and ears and knowledge look at the agency very carefully. When we went to GAO to make that request, we found that GAO did not have the resources to do the audit. They did, however, suggest an outside source, Riso & Dempsey, for the Agency's consideration.

They were not secured to evaluate the inspector general but, rather, to evaluate and assess certain other aspects of the office. So my review and my evaluation of the inspector general is based upon the same methodologies that I utilized for the other office directors that report to me, of which the inspector general is one.

Senator BURDICK. Do you care to add to that statement you just made?

Mr. STEELE. Would I care to add anything more in writing?

Senator BURDICK. Yes. If you wish.

Mr. STEELE. Thank you.

[The information follows:]

Mr. Chairman, I appreciate the opportunity to further clarify what Senator Glenn has termed the "apparent contradiction" between the results of the Riso and Dempsey study and the Inspector General's 1990 performance evaluation.

Riso and Dempsey was not secured to evaluate the Inspector General. Rather, they were secured for the following purpose specifically stated on page four in their report. That states, "The Chairman of the Farm Credit Administration Board of Directors, who was appointed by the President in October 1989, contracted for an analysis of the duties and responsibilities of the Office of the Inspector General and an appraisal of the implementation of the Inspector General Act at the Farm Credit Administration. The Chairman arranged for this study to obtain information and recommendations which can be used to strengthen and improve OIG operations so that FCA may realize fully the advantages and benefits of an independent Office of Inspector General."

On the other hand, it is my responsibility as Chairman/CEO of the FCA to evaluate the IG's performance on a yearly basis.

Mr. Chairman, Senator Glenn quotes a portion of the Riso and Dempsey study in his question. He says, "As you are aware, the review concluded that the Inspector General has demonstrated impressive leadership ability and that the OIG audit function with minor exceptions as noted is being carried out in compliance with GAO audit standards and with guidelines issued by the President's Council on Integrity and Efficiency."

I would add that the Riso and Dempsey study points out six areas in which the application of audit standards "needs improvement." Those six areas are: 1) audit universe, 2) strategic planning, 3) annual audit plan, 4) detection of fraud, waste and mismanagement, 5) internal controls computer based systems, and 6) OIG monitoring system of audit follow-up.

I would point out that most of these six areas were also areas for which the IG was evaluated in his 1990 performance appraisal.

SHAM HIRING

Senator BURDICK. Continuing the Senator's questions, in November 1990 I understand that while the OIG was conducting an official investigation of an alleged "sham hiring" of an unqualified person by the FCA office, you accused the inspector general of overstepping his authority. During this same discussion it is reported that you brandished a large envelope and stated to the inspector general that "the file is growing and you're going to stub your toe if you don't watch your step."

Could you explain the basis of this statement?

Mr. STEELE. Well, here again, Mr. Chairman, that particular audit is still in progress. I believe it is correct that the office director is still responding to the inspector general. I have not seen the audit.

Again, I am wondering why such a report would be submitted before it is finalized. It is basically the same response I gave previously. It would seem to me to be improper to submit such information before completion is accommodated for an audit.

Senator BURDICK. Thank you, Mr. Steele. I know Senator Glenn will be interested in your response.

Mr. STEELE. I would be very pleased to speak with Senator Glenn.

SUBMITTED QUESTIONS

Senator BURDICK. Thank you for your testimony. Additional questions will be submitted for written answers, and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Agencies for response subsequent to the hearing:]

FARM CREDIT SYSTEM ASSISTANCE BOARD

QUESTIONS SUBMITTED BY SENATOR BURDICK

SEVERANCE INFORMATION

Question. With the Assistance Board terminating at the end of 1992, I understand that the Board is interested in an exemption from Title V severance practices in order to offer a better severance package and thereby keep employees until the end. In what ways would the Board's package be better than Title V? Please provide for the record, an example of severance packages under the two plans for several levels of employees at the Assistance Board. What would be the maximum length of severance under each plan?

Answer. The Farm Credit System Assistance Board (Assistance Board) will terminate on December 31, 1992, as provided in the Agriculture Credit Act of 1987. The Board employs a relatively small staff of just under 20 people and relies on their highly specialized, technical skills to carry out its function of monitoring those Farm Credit System institutions that have been certified to receive financial assistance. It is vital that this staff is retained by the organization as it will be difficult to replace their specially developed skills in the short time remaining. Their expertise will provide continued, careful oversight of the management and business plans of certified institutions to limit any deviation from their recovery plans and to help guarantee timely repayment of federal funds.

To encourage retention of staff, the Board of Directors has authorized Assistance Board management to request removal of language added to the annual appropriations legislation which subjects Assistance Board staff to the severance restrictions found in Title V of the U.S. Code. Management has not yet presented any specific plan to the Board of Directors and, if Title V restrictions are removed, the Board of Directors would have to approve any plan ultimately adopted. It is significant to note that provisions of the 1987 Act specifically exempt the Assistance Board from the Title V requirements which were subsequently added to appropriations bills.

Offering a severance package would not require additional appropriations or even a raising of the appropriations limit for the Assistance Board. In addition, Assistance Board management views severance only as a safety net and will strive to place people in post-Assistance Board employment to minimize payment of any severance.

For the sole purpose of providing examples of possible severance packages, three sample plans are outlined below, along with the existing Title V program.

Title V provides the greatest benefits to those employees who are over 40 and who have more than ten years of government service. Benefits are paid biweekly and will cease if an employee is rehired within the federal government but will continue if he or she is employed by the private sector. Because many Assistance Board employees are under 40 and most have less than 10 years federal work experience, Title V does not offer sufficient benefits to retain staff.

Sample I is an example of a straight six month plan for all employees, but would include some factor limiting payment if employment with the Assistance Board were after a certain date. Payments cease when the staff person is reemployed.

Sample II pays benefits for a period of time based on an employee's position with the Assistance Board and the anticipated length of time needed for him or her to find a new job. Employees categorized as executive would be eligible to receive payments for up to 6.5 months. Professionals could receive payments up to 5 months, and Administrative staff could receive benefits for 3.5 months. All payments would be based on 100% of salary and adjusted for an individual's length of tenure with the Assistance Board. Benefits cease when an employee finds a new job.

Sample III is identical to sample II, except for the length of time over which benefits are paid. Executives may receive benefits for 12 months, professionals increase to 8 months and administrative staff four months. Again, benefits end when a new job is secured.

The following table shows how these plans compare with each other using projected data as of the actual December 1992 termination date for actual Assistance Board employees:

Employee A is an executive earning $95,455, age 54, with 4.5 years of federal service who has been with the Assistance Board 29 months or 49.2% of the Board's five year life.

Employee B is a professional earning $66,807, age 33, with 6 years of federal service and 50 months (85%) of Assistance Board service.

Employee C is an administrative staff person earning $32,786, age 39, with 4 years of federal service and 47 months (80%) of Assistance Board service.

PLAN	A	B	C
Title V	$19,825	$ 7,709	$ 2,522
Sample I	$47,728	$33,404	$16,393
Sample II	$25,439	$23,661	$ 7,650
Sample III	$46,964	$37,857	$ 8,743

FARM CREDIT ADMINISTRATION

QUESTIONS SUBMITTED BY SENATOR BURDICK

PREDATORY PRICING

Question. Mr. Steele, the issue of predatory pricing has been raised with regard to the Farm Credit System.

• Would you provide us an update on this issue?

• Have you found any situations of predatory pricing and if so how prevalent is this problem?

Answer. Loan pricing directly impacts all facets of an institution's operations, including earnings, capital, liquidity, and portfolio risk. For this reason, the Farm Credit Administration evaluates loan pricing practices in its examinations of Farm Credit System institutions. These examinations are designed to ensure that loan pricing practices are consistent with safe and sound business operations, and legislative intent.

"Predatory pricing" is the practice of setting interest rates to attract or retain borrowers with a willful disregard for the costs of doing business, or well below prevailing rates in the market. The costs of doing business include the cost of funds, operating expenses, reserve requirements, capital accretion, and other business expenses. About 1 year ago, we uncovered one institution underpricing the market. The FCA addressed the situation through its enforcement process and no further incidents have been surfaced.

The Farm Credit Administration investigates all allegations of "predatory pricing" provided that sufficient supporting information is included in the complaint. Within the current fiscal year (October 1990 to the present), we have received only three complaints regarding loan pricing practices. Of these, one complaint lacked sufficient information to warrant further investigation. The complainant also failed to provide additional information that the FCA requested. Investigations of the other complaints concluded that there was no evidence of "predatory" or below-cost loan pricing by the subject institutions.

SYSTEM INSTITUTIONS

Question. I note that with the recent mergers and changing structure of the Farm Credit System, it seems to be getting more complicated. Where we used to have Production Credit Associations and Federal Land Bank Associations, we now have, in addition to the PCAs and FLBAs, Agricultural Credit Associations (ACA) and Federal Land Credit Associations (FLCA).

• Is it correct to assume that an ACA is simply a merger of a PCA and Land Bank?

Answer. An ACA is formed when a Production Credit Association merges with a Federal Land Bank Association. The newly formed ACA has all the powers of the merging associations including short-, intermediate-, and long-term lending authorities.

Question. • What is the difference between a Federal Land Bank Association and a Federal Land Credit Association?

Answer. A Federal Land Bank Association is an agent of the Farm Credit Bank and as such is not a direct lender. A Federal

Land Credit Association is a direct lender and possesses all of the direct long-term real estate mortgage loan authority formerly possessed by the Farm Credit Bank.

CAMEL RATINGS

Question. You testified that the CAMEL ratings for institutions have generally improved with the percentage of "4" and "5" ratings declining and the percentage of "2" and "3" ratings increasing. I note, however, that the percentage of "1" ratings has also declined over the last 4 years.

Why is there not a better "1" rating performance?

Answer. The reasons for the declining percentages of "1" ratings in 1990 are twofold. First of all, since 1987, 14 institutions rated "1" have merged. In most cases, the "1"-rated institutions were Federal Land Bank Associations (FLBAs) that merged with Production Credit Associations (PCAs) to become Agricultural Credit Associations (ACAs). The resultant rating assigned after the merger is that of the direct lenders (PCAs) which, in most cases, had been rated "2" prior to the merger.

The second reason is simply timing. Several institutions were not rated in 1990 because they are FLBAs which are examined every 3 years rather than every year, which is the requirement for all direct lenders.

Question. You indicate in your statement that the agency has modified the traditional CAMEL System used by other Federal financial regulators to reflect the nondepository and business lending nature of System institutions.

Please provide the Committee with some detail regarding the guidelines used by the agency to determine whether a System institution should be rated as a "1" - "5" for each of the measures which comprise the CAMEL rating.

Answer. Attached is the *FCA Examination Manual* section on the Farm Credit Administration Rating System. This document provides the guidelines and considerations used by FCA examiners in rating each institution. The rating system considers both quantitative and qualitative factors as it measures performance in each of the CAMEL areas.

(Attachment A)

Attachment A

MODULE: EXAMINATION TECHNIQUES
SECTION: FCA RATING SYSTEM

Introduction

Most financial institutions are categorized or rated by their respective regulators through the Uniform Financial Institutions Rating System. This system has been modified by FCA to reflect the nondepository nature of Farm Credit System (FCS) institutions. The FCA Rating System provides a general framework for assimilating and evaluating all significant financial, operational, and compliance factors to assign a composite rating to each System institution. The purpose of the rating system is to reflect, in a comprehensive and uniform fashion, an institution's financial condition, compliance with laws and regulations, quality of management, and overall safety and soundness.

Though each institution has its own examination and supervisory issues and concerns, the rating system is predicated on certain features and functions, including qualitative and quantitative factors, that are common to all FCS institutions. Each System institution is assigned a composite rating based on an evaluation of pertinent financial and operational criteria and principles. The rating is based on a scale of "1" through "5" in ascending order of supervisory concern, i.e., "5" represents the poorest, most critically deficient level of performance and the highest level of FCA concern.

All relevant factors must be weighed and evaluated in assigning a rating, including:

- the adequacy of capital to support present operations and future growth;
- the quality of loans, investments, and other assets;
- the ability of management to properly administer all aspects of the business and to plan for future needs and changing circumstances;
- the ability to generate earnings to provide adequate security to shareholders and maintain public confidence; and
- the availability of liquid funds to meet current and future obligations.

The assignment of a rating may incorporate any other factors that bear significantly on the overall condition and soundness of the institution.

Objective

The primary objective of the rating system is to ensure a uniform evaluation of the main characteristics of all FCS institutions. Such an evaluation will provide an agencywide understanding of each institution's financial condition, compliance with regulations and statutes, and overall operating soundness. The overall evaluation, or the composite rating, will serve to guide the examination and regulatory response of FCA. Finally, the agency will be better prepared to ensure that System disclosure to the public is reflective of its condition.

Composite Rating Definitions

Rating 1

Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and can be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the vagaries of business conditions than institutions with lower ratings. As a result, these institutions give no cause for regulatory concern.

Rating 2

Institutions in this group are also fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. The nature and severity of deficiencies are not considered material and, therefore, such institutions are stable and able to withstand business fluctuations. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.

Rating 3

Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from unsatisfactory to moderately severe. When weaknesses relate to asset quality and/or financial condition, such institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if concerted action is not effective in correcting the areas of weakness. Institutions that are in significant noncompliance with laws and regulations may also be accorded this rating. These institutions are rated unsatisfactory and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are implemented.

Rating 4

Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to develop into a situation that will impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

Rating 5

This category is reserved for institutions with an extremely high immediate- or near-term probability of failure. The

number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

Rating Categories

Capital Adequacy

The evaluation of an institution's capital and its adequacy focuses on its capacity to absorb losses and provide for future growth. Capital is rated "1" through "5" on such factors as:

- the volume of permanent capital as defined by regulations;
- the relationship of the volume of permanent capital to the volume of marginal and inferior quality assets;
- institutional growth experience, plans, and prospects;
- management strength in relation to the items above;
- compliance with capital regulations;
- adequacy of the Capital Plan; and
- adequacy of total capital.

Consideration should also be given to an institution's capital ratios relative to its peer group, its earnings retention, and its access to capital markets or other appropriate sources of financial assistance.

The interrelationship between the dividend or patronage payout ratio and the rate of growth of retained earnings should also be considered. A dividend or patronage payout rate that is sufficiently high as to cause an adverse relationship suggests conditions warrant a lower rating despite a level of earnings that might otherwise indicate a more favorable appraisal.

Capital adequacy ratings of "1" or "2" indicate low concern situations, although institutions rated "1" will generally have higher capital ratios than those rated "2." Capital adequacy will be rated "3" when an institution's capital position, in relation to its risk assets, marginal assets, and growth plans and experience, is adverse, even giving weight to management as a mitigating factor. Capital adequacy ratings of "4" and "5" represent inadequately capitalized institutions. A rating of "5" also denotes an institution that requires urgent financial assistance from external sources to remove the threat of immediate insolvency.

Asset Quality

Asset quality is rated "1" through "5" based on such factors as:

- the level and severity of adversely classified assets;
- the adequacy of the allowance for loan losses;
- the quality of credit administration;
- the level and composition of nonaccrual and reduced rate assets; and
- compliance with lending regulations.

In evaluating asset quality, consideration should also be given to the nature and volume of other assets especially mentioned, lending policies, and the adequacy of credit practices.

Asset quality ratings of "1" and "2" represent situations involving a minimal level of concern. Both ratings represent sound portfolios, although the level and severity of adverse classifications in institutions with asset quality rated "2" generally exceed those with asset quality rated "1." An asset rating of "3" indicates a situation involving an appreciable degree of concern to the extent that current adverse trends suggest potential problems. Ratings "4" and "5" represent increasingly more severe asset problems; rating "5," in particular, represents an imminent threat to the institution's viability through the corrosive effect of asset quality problems.

Management and Administration

Board and management performance must be evaluated against virtually all safety and soundness factors considered necessary to operate the institution within accepted banking practices. Management is rated "1" through "5" based on:

- the overall condition of the institution to the extent that the condition can be traced to decisionmaking;
- competence, leadership, and administrative ability;
- compliance with regulations and statutes;
- ability to plan and respond to changing circumstances;
- adequacy of and compliance with internal policies;
- ability to administer and collect high-risk credits;
- management depth and plans for succession;
- absence of self-dealing;
- willingness and ability to serve the legitimate needs of its geographic territory; and
- adequacy of internal controls.

A rating of "1" is indicative of a board of directors and management that are fully effective and exhibit a responsiveness and ability to cope successfully with existing and foreseeable problems that may arise in the conduct of the institution's affairs. A rating of "2" reflects some deficiencies but generally indicates a satisfactory record of performance in light of the institution's particular circumstances. A rating of "3" reflects performance that is lacking in some measure of competence necessary to meet the responsibilities of the existing situation. A rating of "4" is indicative of management that is inferior in ability compared to the responsibilities with which it is charged. A rating of "5" is applicable in those instances where incompetence has been demonstrated. Ratings of "4" or "5" are assigned when management weaknesses are of such severity that management must be strengthened or replaced before the institution can return to a safe and sound status.

Earnings

Earnings are rated "1" through "5" based on:

- earnings trends;
- the ability to cover expenses, including provision for loan losses, and to provide for adequate capital;
- peer group comparisons; and
- quality and composition of net income.

The quality of earnings is an important factor in evaluating earnings; locally generated cash earnings should receive more consideration than noncash patronage allocations. Consideration should also be given to the adequacy of transfers to the allowance for loan losses, earnings which are retained to augment the capital structure, and the extent to which nonrecurring extraordinary items, securities transactions, and tax effects contribute to net income.

A rating of "1" is assigned when earnings are sufficient

to make full provision for the absorption of losses and the accretion of capital when due consideration is given to asset quality as well as earnings trends and potential. Institutions so rated will have earnings well above peer group averages.

An institution whose earnings are relatively static or even moving downward may receive a rating of "2" provided its level of earnings is adequate in view of the considerations above. Normally, institutions so rated will have earnings that are in line with or slightly above peer group norms.

A rating of "3" should be assigned when earnings are not sufficient to make full provision for the absorption of losses and the accretion of capital in relation to the institution's growth. The situation may be further clouded by static or inconsistent earnings trends, chronically insufficient earnings, or less than satisfactory asset quality. The earnings are also generally below peer group averages.

Institutions rated "4" are characterized by erratic fluctuations in net income, the development of a downward trend, intermittent losses, or a substantial drop from the previous year. The earnings are ordinarily negative or substantially below peer group averages.

Institutions with earnings accorded a "5" rating will be experiencing losses or reflecting a level of earnings that is worse than defined for institutions with a "4" rating. Such losses represent a distinct threat to the institution's solvency through the erosion of capital.

Liquidity

Liquidity is rated "1" through "5" based on:

- assets readily convertible into cash;
- maturity relationship between assets and liabilities;
- direct loan margin;
- ability to collateralize external debt; and
- access to money markets or other ready sources of cash.

An institution's liquidity is evaluated according to its capacity to promptly meet the demand for payment of its obligations and to readily meet the reasonable credit needs of the community it serves. In appraising liquidity, attention should be directed to the institution's average liquidity over a specific time period as well as its liquidity position on any particular date. The overall effectiveness of asset/liability management strategies and compliance with and adequacy of established liquidity policies must be evaluated. The nature, volume, and anticipated use of an institution's credit commitments or any contractual obligations are also factors to be weighed in determining the rating for liquidity.

A liquidity rating of "1" indicates more than sufficient liquid assets and/or ready access on favorable terms to external sources of liquidity within the context of the institution's overall asset/liability management strategy. An institution that is developing a trend toward decreasing liquidity and increasing reliance on borrowed funds, yet is still within acceptable proportions, may have its liquidity rated "2." A liquidity rating of "3" reflects insufficient liquid assets and/or a reliance on interest-sensitive funds that exceeds reasonable proportions for a given institution. Ratings of "4" and "5" represent increasingly serious liquidity positions. Institutions with liquidity positions so critical as to constitute an imminent threat to continued viability should have their liquidity rated "5." Such institutions require immediate remedial action or external financial assistance to allow them to meet their maturing obligations.

Procedures

Form FCA 1000 should be completed at the conclusion of each examination and two copies provided to the Chief Examiner's Office at the time of internal distribution of the Report of Examination. In addition, the team should retain a copy of the form in a planning folder to be used in developing the annual examination plan. This folder should contain a current copy of the rating form on each institution assigned to the examination team.

Form FCA 1000 (revised 11/89) is composed of five parts:

- Rating
- Key Statistics
- Qualitative Evaluation
- Examination Cycle Plan
- Comments

The workpaper summarizes and documents the condition of the institution and the examiners' concerns, and recommends the staffing resources needed through the next examination cycle. Ultimately, the form serves as a primary source document in the strategic planning process. Prior to the Rating section, the FCA 1000 form requires the Date of Examination, Examiner-in-Charge, Date of Enforcement Action, and Type of Enforcement Action. The Date of Enforcement Action should be the date of the latest action in effect. If more than one enforcement action is in effect, this should be footnoted at the bottom of the form. The Type of Enforcement Action should be indicated as Supervisory Letter, Written Agreement, Cease and Desist Order, etc.

Rating Section

This section provides the composite FCA and individual CAMEL ratings for the current examination and for previous years.

The composite rating assigned is not a simple average of the individual ratings. The composite rating is arrived at after weighing the relative importance of the individual ratings and the interrelationships between the various rating factors. The examiner-in-charge (EIC) of each examination will determine the weight that should be given to each of the performance factors to determine the overall condition of the institution being examined. Examiner judgment is required to apply the Composite Rating Definitions previously discussed and assign a rating that properly reflects the degree of risk applicable to the individual circumstances.

The EIC will complete the relevant portions of the workpaper and assign a rating to each individual category at the conclusion of each examination. The EIC recommends a composite rating for each institution which is then approved by the Examination Manager and Associate Regional Director.

The ratings assigned are for internal FCA use only. They are not to be shared with System institutions or with the public. Ratings should be reviewed in conjunction with quarterly updates to the annual examination plan and institution monitoring to determine whether conditions warrant a change. With the approval of the appropriate

Regional Director, an institution may be rated more severely if information obtained subsequent to an examination supports such an action. Except under exceptional and well-documented circumstances, a composite rating number may not be lowered (improved) without an onsite examination.

Key Statistics Section

Unless otherwise guided below, key statistics should be calculated at and presented for the "as of" date.

1. **Total Assets**
Total assets from the institution's general ledger. Total assets should be net of any contra accounts such as the allowance for loan losses and accumulated depreciaiton.

2. **Average Assets**
Average of assets outstanding for the previous 12 months. Methods to calculate the average should, at a minimum, include monthend balances for the period.

3. **Asset Growth**
The percent change in total assets over the previous 12 months. Calculated by: the current total assets minus prior year total assets divided by prior year total assets.

4. **Total Loans**
The total loan assets including accrual loans, nonaccrual loans, purchase money mortgages, sales contracts, and accrued interest. Exclude any participations sold, acquired property, and accounts receivable. Also, do not deduct any allowance for losses.

5. **Percent Delinquent**
The unpaid principal balance and accrued interest of loans delinquent more than 30 days divided by total loans.

6.–9. **OAEM, Substandard, Doubtful, Loss**
The dollar amount of criticized assets calculated by the institution and adjusted for results of the FCA examination.

10. **Acquired Property**
The balance of acquired property net of depreciation but before any allowances.

11. **Allowance for Losses**
The sum of the allowances for loan losses and acquired property.

12. **Permanent Capital**
See delinition in 12 CFR 615.5201.

13. **Permanent Capital Ratio**
Permanent capital divided by risk-adjusted assets per regulation.

14. **Risk Funds**
Allowance for losses adjusted for chargeoffs and recoveries and additional provisions required by examiners plus permanent capital adjusted for any double counting of the allowance for losses when the regulatory allowance exceeds the generally accepted accounting principal allowance.

15. **Adverse Assets/Risk Funds**
The sum of adversely classified loans and adversely classified investments plus acquired property, divided by risk funds.

16. **Risk Funds/Total Assets**
See previous definitions for each element.

17. **Dividends/Income**
Cash dividends and patronage paid divided by previous fiscal year net income.

18. **Net Income from Operations**
Interest income minus interest expense plus other operating income less operating expense.

19. **Net Income**
Net income for the year-to-date.

20. **Return on Assets**
The year-to-date income annualized and divided by average assets year-to-date.

21. **Earning Assets/Total Assets**
The total of all interest-earning assets (usually accrual loans, cash basis nonaccrual loans, purchase money mortgages, sales contracts, and investments) divided by total assets.

22. **Net Interest Margin**
Total interest income less total interest expense annualized divided by average interest-earning assets year-to-date.

23. **Operating Expenses/Average Loans**
Operating expenses annualized divided by average loans year-to-date.

24. **Rate-Sensitive Assets/Rate-Sensitive Liabilities**
Interest-earning assets which mature or can be repriced within 1 year divided by interest–bearing liabilities which will mature or be repriced within 1 year.

25. **Cash**
Cash on hand, cash items in process of collection, and balances in depository institutions. Includes overnight Fed funds sold.

26. **Direct Loan**
All liabilities to the discounting Farm Credit Bank.

Qualitative Evaluation Section

This section contains a list under each CAMEL factor that the examiner should consider when assigning a rating. The list is not to be considered all inclusive but rather contains common concerns cited in the Reports of Examination.

A brief description of each item follows:

Capital Adequacy

Permanent Capital
The current level of permanent capital and the institution's progress toward meeting the requirements of capital adequacy regulations.

Comparative Level
The institution's level of capital in comparison to peer group institutions.

Composition
The composition of the institution's capital; e.g., permanent capital vs. guaranteed stock.

Trends and Threats
Any trends in capital position or composition. Threats such as deteriorating asset quality, weak earnings performance, and assessments due must be weighed.

In considering capital adequacy, a qualitative analysis of the following key statistics should also be considered:

Risk Funds/Total Assets
This ratio is an indicator of capital strength and is a measure of liquidity. A larger percentage is normally indicative of financial strength.

Adverse Assets/Risk Funds
The lower the better. The composition of adverse assets is also important to evaluate. Doubtful and loss assets will have a much greater impact on risk funds than those classified substandard.

Permanent Capital/Total Assets
This ratio is similar to Risk Funds/Total Assets except allowance for losses is excluded and thus is more a measure of leverage.

Asset Quality

Risk Exposure
The overall level of adversely classified assets including trends and mix of adverse assets.

Credit Administration
The overall quality of credit administration, taking into account materiality and existing or emerging trends.

Credit Analysis
The quality of analysis and decisions on loans and loan servicing.

Loan Servicing and Collection Policies
The institution's policies and procedures in handling existing loans, including collecting or resolving delinquencies.

Credit Expertise
The ability of the institution's staff to properly administer all of the institution's assets.

Allowance for Losses
The adequacy of the institution's allowance for losses, its procedures for establishing allowances, and compliance with these procedures.

Management

Effectiveness of Directorate
The ability demonstrated by the institution's directors to plan, direct, supervise, and control the operations of the institution.

Effectiveness of Policy
The adequacy of written policy and objectives covering all areas of operation within the institution.

Effectiveness of Executive Management
The demonstrated knowledge, skills, and abilities of the institution's executive group to carry out the board's policies and operate the institution in a safe and sound manner.

Depth/Succession
The institution's preparation for management succession and the ability of current employees to fill management positions.

Compensation
The reasonableness of compensation to the board and management.

Conflict of Interest
The degree to which the board and management avoid and/or resolve any conflicts of interest.

Response to FCA
The timeliness and adequacy of the institution's response to direction from FCA.

Compliance with Laws and Regulations
The degree to which the institution has complied with laws and regulations.

Records, Systems, and Controls
The quality of records, information systems, and internal controls.

Business Plan, Budgets and Projections
The quality and completeness of the institution's overall planning process.

Earnings

Comparative Level
The level of earnings in comparison to peer group institutions.

Trend
The trends that the institution has established in earnings.

Stability
The likelihood that earnings from operations will continue.

Asset Pricing
The institution's policies and procedures in establishing pricing programs.

Overhead
The overall costs of operations and management's ability to keep expenditures in line with safe business practices.

External Factors
Any factors beyond the institution's control which impact earnings, whether positively or negatively.

Rate Sensitivity
Any asset and liability maturity gap that creates excessive interest rate risk.

Key ratios that affect the qualitative analysis of earnings include:

Return on Assets
This measures the total income from the institution's asset base and remains a key measure of profitability.

Earning Assets/Total Assets
This is a measure of the institution's ability to put assets to work and is a key indicator of continued earnings.

Net Interest Margin
This ratio measures the income produced by interest-earning assets.

Operating Expenses/Average Loans
This measures management's operating efficiency relative to the portfolio being managed.

Rate-Sensitive Assets/Rate-Sensitive Liabilities
This measures the institution's ability to keep its portfolio balanced with its cost of debt. A ratio of 1:1 is ideal while greater or less than 1:1 indicates exposure to risk with market interest rate changes.

Liquidity

Asset/Liability Structure
Adequacy of balance sheet structure to maximize profitability while maintaining risk at an acceptable level.

Cash Flow and Liquidity Management
The planning and use of cash and debt to assure liquidity at a reasonable cost.

Loanable Funds
The level, composition, and trends in the institution's loanable funds.

Contingent Liabilities
Formal loan commitments, pending assessments or other matters for which information available indicates a reasonable possibility that the institution will incur liabilities for which funding sources will have to be found.

Litigation or Impending Litigation
The risk in existing litigation or litigation threatened against the institution by a third party but not formally commenced.

Funding Stability
The risk imposed by a concentration in funding sources, such as an association's direct loan from a bank, and the potential that such sources may be withdrawn.

Secondary Sources
Assets available for conversion, but which may not be readily convertible. Examples include the investment portfolio, which is obviously more readily convertible if it has appreciated in value.

Performance Criteria

Each of the items listed in the Qualitative Evaluation Section should be rated A, M, U, or NR as follows:

Rating	Definition
A	Represents average or above performance. This rating reflects little or no concern with the institution's performance on the item rated.
M	Represents below average to marginal performance. Such performance might evolve to threaten the institution if unchecked.
U	Indicates unsatisfactory performance. This rating reflects a critical deficiency that needs immediate remedial action. By itself or in combination with other weaknesses it impairs the institution's viability.
NR	The examiner has not performed sufficient work during the examination to draw a conclusion on this individual factor.

In conclusion, the purpose of the Qualitative Evaluation Section is to highlight those areas of operation that are of the most concern to the examiner. Such areas should be the focus of examination activities during the next examination cycle.

Examination Cycle Plan Section

This section provides the examiner's recommendation for examining the institution through the next examination cycle. In effect, this will become a key component of the annual examination plan. The examiner-in-charge briefly describes followup activities needed and time to be spent on such activities. In addition, this section describes the extent of work to be performed and establishes a preliminary budget for staffing the next examination based on the concerns (ratings) of the recently completed examination. The recommended examination strategy should be in concert with and reflective of any recommended regulatory enforcement. The coding of activities follows the coding used in the Time Tracking System.

Comments Section

This section should contain a brief explanation of the overall composite rating. Completion of this section is only necessary if the statistics and qualitative factors sections of the form do not adequately explain the basis of the overall rating.

FCA RATING SYSTEM SUMMARY

Institution _____

Date of Examination					
EIC					
Date of Enforcement Action					
Type of Enforcement Action					
RATING SECTION					
Composite Rating					
Individual Factors	C A M E L	C A M E L	C A M E L	C A M E L	C A M E L
KEY STATISTICS SECTION					
1. Total Assets	$	$	$	$	$
2. Average Assets	$	$	$	$	$
3. Asset Growth	%	%	%	%	%
4. Total Loans	$	$	$	$	$
5. % Delinquent	%	%	%	%	%
6. OAEM	$	$	$	$	$
7. Substandard	$	$	$	$	$
8. Doubtful	$	$	$	$	$
9. Loss	$	$	$	$	$
10. Acquired Property	$	$	$	$	$
11. Allowance for Losses	$	$	$	$	$
12. Permanent Capital	$	$	$	$	$
13. Permanent Capital Ratio	%	%	%	%	%
14. Risk Funds	$	$	$	$	$
15. Adverse Assets/Risk Funds	%	%	%	%	%
16. Risk Funds/Total Assets	%	%	%	%	%
17. Dividends/Income	%	%	%	%	%
18. Net Income from Operations	$	$	$	$	$
19. Net Income	$	$	$	$	$
20. Return on Assets (Annualized)	%	%	%	%	%
21. Earning Assets/Total Assets	%	%	%	%	%
22. Net Interest Margin	%	%	%	%	%
23. Operating Expenses/ Average Loans	%	%	%	%	%
24. Rate-Sensitive Assets/ Rate-Sensitive Liabilities	%	%	%	%	%
25. Cash	$	$	$	$	$
26. Direct Loan (Associations Only)	$	$	$	$	$

Prepared by	Date
Reviewed by	Date
Schedule	Page

FCA RATING SYSTEM SUMMARY

INSTITUTION _____

QUALITATIVE EVALUATION SECTION

CAPITAL ADEQUACY
- ___ Permanent Capital
- ___ Comparative Level
- ___ Composition
- ___ Trends and Threats
- ___ Other (Specify) _____

ASSET QUALITY
- ___ Risk Exposure
- ___ Credit Administration
- ___ Credit Analysis
- ___ Loan Servicing & Collection Policies
- ___ Credit Expertise
- ___ Allowance for Losses
- ___ Other (Specify) _____

MANAGEMENT
- ___ Effectiveness of Directorate
- ___ Effectiveness of Policy
- ___ Effectiveness of Executive Management
- ___ Depth/Succession
- ___ Compensation
- ___ Conflict of Interest
- ___ Response to FCA
- ___ Compliance with Laws & Regulations
- ___ Records, Systems & Controls
- ___ Business Plan, Budgets & Projections
- ___ Other (Specify) _____

EARNINGS
- ___ Comparative Level
- ___ Trend
- ___ Stability
- ___ Asset Pricing
- ___ Overhead
- ___ External Factors
- ___ Rate Sensitivity
- ___ Other

LIQUIDITY
- ___ Asset/Liability Structure
- ___ Cash Flow and Liquidity Management
- ___ Loanable Funds
- ___ Contingent Liabilities
- ___ Litigation
- ___ Funding Stability
- ___ Secondary Sources
- ___ Other

EXAMINATION CYCLE PLAN

TIME TRACKING CODE FY	TYPE	PHASE	ACTIVITY	DATE	STAFF DAYS
			Followup & Monitoring: _____		
			_____		
			_____		
			_____ Total		
			Next Annual Examination: As of Date		
			Planning _____		
			Examination (describe) _____		
			_____		
			_____		
			Completion _____ Issuance Date		
			Travel _____		
			Total		

COMMENTS:

Prepared by	Date
Reviewed by	Date
Schedule	Page

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FCA 1000 -- INSTRUCTIONS

Performance Evaluation Section -- A description of the graduations utilized in conjunction with the performance ratings as follows:

Rating "A" -- Reflects satisfactory performance, performance which is average or above.

Rating "M" -- Represents performance that is marginal and as such is considered below average. If left unchecked, such performance might evolve into weaknesses or conditions that could threaten the viability of the institution.

Rating "U" -- Considered unsatisfactory; performance that is critically deficient and in need of immediate remedial attention. Such performance, by itself or in combination with other weaknesses, impairs the viability of the institution.

Rating "NR" -- Insufficient work performed to draw a conclusion.

Question. Is there some debate among financial regulators regarding the reliability of the CAMEL Rating System as a measure of the health of financial institutions and concern that it is not applied evenly? What is the agency doing to ensure that your examiners are consistent in their rating of the System institutions.

Answer. The FCA is unaware of any debate among regulators regarding the reliability of the CAMEL Rating System. The CAMEL Rating System used by the agency has been a valuable tool in assigning concern levels to the institutions of the Farm Credit System. There is a close correlation between the assigned rating and the financial condition and performance of the institution. Admittedly, there is some professional judgment involved in the assignment of individual ratings by agency examiners. To assure that prudent judgment is being exercised and to obtain a satisfactory level of consistency, the agency's examination and enforcement program requires the review and concurrence of the Chief Examiner of the Office of Examination, and for problem institutions with ratings of "3", "4", or "5," and the Office of Regulatory Enforcement.

GOVERNMENT-SPONSORED ENTERPRISES

Question. Mr. Steele, as you know there has been considerable discussion regarding government-sponsored enterprises (GSEs) over the last year. The Treasury Department and the Congressional Budget Office are due to release studies at the end of this month and the General Accounting Office will release a study on the subject next month. The Treasury has raised a number of concerns regarding the quality of regulation of the GSEs.

Would you please provide this committee with your insight regarding the level of regulation of the Farm Credit System and Farmer Mac and whether your agency needs any additional authority to assure proper regulation and enforcement of your regulation of the System and Farmer Mac.

Answer. Generally, the FCA regulation of the banks and associations of the FCS parallels that of commercial banks. We believe this is generally adequate to protect the public interest and that FCA has sufficient authority to fulfill its responsibility. The FCA's authority to regulate Farmer Mac is not as clear as it is for the rest of the FCS. Last year the FCA proposed amendments to the Act to clarify the scope of regulatory authority. The FCA remains convinced it would be better able to ensure safe and sound operations if it had rulemaking authority as previously requested. While the Congress did approve some amendments, it did not grant the full scope of authority sought by the FCA.

BUDGET

Question. Mr. Steele, you indicated that you have implemented certain cost saving measures which have resulted in a reduction in your projected budget to $42.5 million for 1992.

• What are your current projections for actual expenditures for 1991 as well as your estimated staffing level.

Answer. The actual savings from many of the cost-saving measures I described in my testimony will not begin to be realized until FY 1992. For example, as I testified, three Office of Examination field locations will be closed FY 1991. While we expect to achieve operational efficiency and cost savings from

these closures in FY 1992, certain costs of closing had to be absorbed FY 1991. Relocation expenses have increased this fiscal year because an attempt was made to retain experienced examiners and support personnel by offering them positions at other FCA sites. We expect to have actual expenditures in FY 1991 which will be within 1 percent of the FY 1991 FCA expense limitation. By the end of the year, our on-board personnel staffing will be within 3 to 5 percent of our estimated personnel staffing level.

FARM CREDIT SYSTEM INSURANCE CORPORATION

Question. The President's budget projects FCSIC expenditures of $898,000 this year and $1.4 million in 1992. It is my understanding that the bulk of FCSIC staffing will be done on a reimbursable arrangement with FCA.

- Would you discuss the plans for the implementation of FCSIC?

- What is the cost of space for FCSIC for 1991 and 1992?

- How much of the FCSIC budget will be paid to FCA for reimbursement of FCA personnel, overhead, and other costs for 1992?

Answer. Actions relative to the implementation of the FCSIC are contained in the attached copy of the FCSIC's 1990 Annual Report. The report details actions taken through December 31, 1990, relative to the operations of the Corporation. In addition, page 19 sets out the FCSIC's Development Plan to bring the Corporation fully operational by December 31, 1992. The FCSIC has accomplished all of its objectives listed in the plan through the first quarter of 1991.

In April 1991, the FCSIC entered into a 3-year lease for space with the Farm Credit System Building Association at a monthly rental of $2,660. The FCSIC will expend $23,940 in 1991 and $31,920 in 1992 for space.

FCSIC 1991 budget expenditures are projected in the following categories:

Personnel	69%
Overhead	19%
Rent	4%
Contracted Services	4%
Travel	4%
TOTAL	**100%**

We expect 1992 expenditures will follow a similar pattern. Events which may alter this are (1) assumption of receiverships from FCA and Financial Assistance Corporation tasks before the Assistance Board's scheduled termination on December 31, 1992, and (2) finalization of negotiations with the FCA relative to reimbursement procedures and overhead rates.

Currently, the FCSIC is staffed with employees detailed from the FCA. Plans are to hire five employees to replace the ones on loan from the FCA. Once these employees are hired, their payroll costs will be paid directly from FCSIC funds.

If we assume all five employees presently detailed from the FCA are replaced with full-time FCSIC staff by October 1, 1991, about $510,000 of the 1992 FCSIC budget will be paid to the FCA for reimbursement.

SPACE COSTS

Question. Mr. Steele, please provide the budget of the Building Association for 1991 and what the proposed budget will be for 1992.

Answer. The budget of the Building Association for 1991 and 1992 is attached.

(Attachment B)

Attachment B

FARM CREDIT SYSTEM BUILDING ASSOCIATION
BUDGET ESTIMATES: 1990, 1991, AND 1992

	1990	1991	1992
REVENUES			
Farm Credit System Assessments	$3,300,000	$3,300,000	$3,000,000
Farm Credit Building Tenant Rent	700,000	600,000	600,000
Communications Administration (Net) (Building Phone System Administration)	85,000	100,000	100,000
Interest (Net)	65,000	100,000	100,000
TOTAL REVENUES	$4,150,000	$4,100,000	$3,800,000
EXPENDITURES			
Property Management			
Real Estate Tax	$395,000	$413,000	$425,000
Utilities	250,000	240,000	240,000
Insurance	40,000	40,000	40,000
Building Services	615,000	625,000	660,000
Elevator Maintenance	(8,000)	(8,000)	(8,000)
Extermination	(3,000)	(3,000)	(5,000)
Security Guards	(135,000)	(137,000)	(150,000)
Electronic Security	(30,000)	(30,000)	(30,000)
Grounds/Interior Plant Maintenance	(62,000)	(60,000)	(60,000)
Safety System	(25,000)	(25,000)	(25,000)
Engineering	(125,000)	(130,000)	(140,000)
Refuse/Snow Removal	(17,000)	(17,000)	(17,000)
Cleaning	(175,000)	(180,000)	(190,000)
Legal/Administration	(15,000)	(15,000)	(15,000)
Repairs	(20,000)	(20,000)	(20,000)
Management Fees	80,000	82,000	85,000
(To Administer Above)	$1,380,000	$1,400,000	$1,450,000
Building Association			
Contract Services	$190,000	$192,000	$165,000
Audit and Taxes	(62,000)	(62,000)	(60,000)
Legal Services	(18,000)	(20,000)	(14,000)
Electrical/Mechanical	(50,000)	(50,000)	(35,000)
Phone System	(40,000)	(40,000)	(36,000)
Audio, Files, Rest Room, Computer Room Cleaning & Maintenance	(20,000)	(20,000)	(20,000)
Maintenance Program	170,000	152,000	165,000
Equipment/Parts/Installation	(50,000)	(38,000)	(45,000)
Carpet and Installation	(20,000)	(15,000)	(20,000)
Five-Year Paint/Refinish	(50,000)	(46,000)	(50,000)
Normal Maintenance Average	(50,000)	(53,000)	(50,000)
Personnel Compensation & Benefits	145,000	156,000	175,000
Community/Business (FCS Interest, assets, etc.)	5,000	5,000	5,000
Training & Travel (10 trips-inventory-training-cabling)	15,000	20,000	25,000
Personal Property Tax	90,000	90,000	85,000
Supplies/Equipment	25,000	25,000	20,000
SUBTOTAL	640,000	640,000	640,000
Field Office Expenditures (Leases, furnishings, administration, 11 field offices)	$2,025,000	$2,150,000	$1,500,000
TOTAL EXPENDITURES	$4,045,000	$4,190,000	$3,590,000

NOTE: The reduction of field office costs in 1992 is a result of Farm Credit Administration Board efforts to reduce administrative costs by closing three offices, and the combination of reducing/expanding two other offices.

SALARY ADJUSTMENTS

Question. Mr. Steele, please describe the salary adjustments made for FCA employees over the last 2 years. Give the dates of the adjustments.

Answer. Effective December 31, 1989, the FCA began paying the following geographic pay differentials:

Albany, NY	5.1 percent
Bloomington, MN	7.1 percent
McLean, VA	9.6 percent
Sacramento, CA	4.5 percent

Effective January 14, 1990, the FCA implemented a 3-percent across-the-board FCA pay increase for all employees except senior executives. This increase was in addition to the 3.6-percent Governmentwide pay increase, which was also effective January 14, 1990.

Effective January 13, 1991, the FCA implemented a 4.1-percent across-the-board pay increase for all employees. At the same time we applied the Government-wide SES pay increases to certain FCA executives.

GOVERNMENT AND PUBLIC AFFAIRS

Question. Mr. Steele, for 1991 and 1992, what is the budget for the Office of Government and Public Affairs at FCA? How many employees are currently serving this function?

Answer. For FY 1991, Congressional and Public Affairs' budget is $517,413 with 7.2 FTEs. For FY 1992, Congressional and Public Affairs' budget request is $565,935, with 7.4 FTEs.

FARMER MAC

Question. Mr. Steele, you indicate that you assessed Farmer Mac $35,000 for 1991 and estimate an assessment of $50,000 in 1992.

• What expenses do these figures include?

Answer. Regarding the $35,000 in 1991, the assessment includes an estimated $20,000 in direct examination costs and $15,950 in indirect costs. Indirect costs are calculated as follows: Estimated direct examination costs are factored as a percentage of the total examination budget, which is then multiplied by the total FCA budget minus the Office of Examination budget to derive a proportionate share of FCA indirect support costs. These costs include space, equipment, printing, communication, legal, and other such costs.

The estimated assessment of $50,000 for Farmer Mac in FY 1992 was a difficult estimate because at the time it was made there was no planning information available on which to base the FY 1992 assessment. The FCA has proposed regulations to completely revise the assessment procedure. This proposed regulation, now out for public comment, includes direct and indirect cost procedures for future assessments of Farmer Mac.

Question. • Do those figures include indirect costs?

Answer. Yes, those figures include $15,950 in indirect costs for 1991 and $25,000 for 1992.

Question. • What is FCA's indirect cost rate?

Answer. The FCA's indirect cost rate for Farmer Mac approximates 44 percent of the total assessment.

Question. • Do indirect costs include the cost of legal staff time, economic analysis, and other such costs?

Answer. Yes, the indirect costs include the cost of legal staff time, economic analysis, and other such costs.

Question. • What will be the impact of the implementation of Farmer Mac II on your cost of oversight of Farmer Mac?

Answer. We anticipate that implementation of Farmer Mac II will result in some incremental increase in FCA oversight cost.

Question. • If Farmer Mac does initiate operations under Farmer Mac I during 1992, what is your current projection of the cost of overseeing its activities?

Answer. Our current planning estimates for the FY 1992 Farmer Mac operation show that the FCA will incur about $50,000 in direct and indirect costs.

Question. What is the financial status of Farmer Mac? For example, what are Farmer Mac revenues and expenditures to date? Please include consultant costs, salaries of staff, directors' fees and meeting expenses and other costs.

Answer. As of December 31, 1990, Farmer Mac was in a "start-up" phase and, accordingly, had not guaranteed any securities nor collected any guarantee fees. At yearend, Farmer Mac had $18.3 million in capital, which was invested in U.S. Government agency securities. These investments generated $1.6 million in income for the year and were used to help defray total expenses of $3.8 million. Farmer Mac operated at a net loss of $2.2 million ($0.92 per share) for 1990. Included in the operating expenses of $3.8 million were $1.9 million of compensation and employee benefits, $0.7 million of professional fees, $0.4 million of meeting expenses and directors' fees and $0.3 million of travel and administrative costs. All other expenses totaled $.5 million.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

AGENCY COSTS

Question 1. Mr. Steele, the issue has been raised that your cost of regulation is high compared to that of other financial regulators. How does your cost per dollar of assets compare with that of the other financial regulators?

Answer. The FCA is committed to cost efficiency. However, we do not have the data necessary to make the comparison you have requested. It can be misleading to attempt to compare the assets of depository institutions, savings and loan organizations, or credit unions with Farm Credit institutions. The institutions are all very different in purpose and financial structure.

We are very aware that our costs are ultimately borne by the farmer-borrower. In 1990, the cost to the borrower for FCA regulation and examination was 6.39 basis points, or just over six one-hundredths of 1 percent.

Question 2. Mr. Steele, how does the current staff level, taking into account the 14 full-time employee positions you plan to eliminate, compare with that of 4 years ago? Can you explain how staff level increases during that period have been utilized and why you feel the 14 positions can now be eliminated? Since there have been substantial efforts to reduce the costs and activities of Farm Credit institutions, do you feel that the increased FCA expenditures (and the resulting costs on system banks) is truly justified? If so, please explain.

Answer. In FY 1988, FCA actual full-time equivalent (FTE) employment was 565. FTE employment for FY 1992 is planned for a level of 566. The staffing level for FY 1992 is 14 below our original request and reflects efficiencies in operations and the maturing of our examiner workforce, many of whom began as trainees back in 1986. The FY 1992 budget is a 5.6-percent increase over the approved budget level for FY 1991. It envisions essential salary and benefits costs, which are 75 percent of the FCA budget, and conservative estimates of the increased costs of goods and services.

FARMER MAC

Question 3. Mr. Steele, as noted in your testimony, FCA only billed Farmer Mac $35,000 last year for the cost of examination and supervision. I appreciate your description of how you arrive at direct and indirect expenses and your manner of assessment. However, do those assessments truly reflect the total amount of FCA resources required to oversee all Farmer Mac activities?

Answer. We believe the assessment basis for Farmer Mac does reflect the consumption of resources by the FCA in examining and supervising that institution. The $35,950 assessed for FY 1991 reflected our best estimate based on what we perceived would be Farmer Mac's activity status for FY 1991. Using the same calculation basis adjusted to FCA planning estimates, the FY 1992 assessment will approximate $50,000.

Question 4. Mr. Steele, your testimony suggests that you would prefer a much lower cap on Farmer Mac assessments if two separate caps are maintained. Can you suggest an assessment formula that would more fairly distribute the contributions from the banks and Farmer Mac?

Answer. A copy of the FCA proposed assessment regulation is attached. We believe this is an equitable basis for the FCA's distribution of operating assessments.

(Attachment C)

Attachment C

[6705-01]

FARM CREDIT ADMINISTRATION

12 CFR Parts 607 and 618

RIN: 3052-AB19

Assessments and Apportionment of Administrative Expenses; General Provisions

AGENCY: Farm Credit Administration.

ACTION: Proposed rule.

SUMMARY: The Farm Credit Administration (FCA) proposes new regulations at 12 CFR part 607, which would prescribe the method by which the assessments that are required to pay the FCA's annual administrative expenses are apportioned among and paid by the Farm Credit System (System) institutions and other entities that are required to pay such expenses.

The proposed regulations would provide an assessment basis for banks and associations that is different from the assessment basis provided for other System entities due to the functional differences between these types of institutions. Banks and associations would be assessed on the basis of average assets. Other System entities would be assessed on the basis of estimated direct expenses plus an allocated portion of indirect expenses. Non-System entities for which the FCA has statutory examination authority would be billed on a reimbursement basis for actual direct expenses incurred for examination plus an allocated portion of indirect expenses.

DATE: Written comments must be received on or before (30 days after date of publication in the Federal Register.)

ADDRESS: Comments must be submitted in writing, in triplicate, to Nancy E. Lynch, Acting General Counsel, Farm Credit Administration, McLean, Virginia 22102-5090. Copies of all communications received will be available for examination by interested parties in the Office of General Counsel, Farm Credit Administration.

FOR FURTHER INFORMATION CONTACT;

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Fiscal Resources Division,
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McLean, VA 22102-5090,
(703) 883-4122,
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or

Joy E. Strickland,
Attorney, Office of General Counsel,
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McLean, VA 22102-5090,
(703) 883-4020,
TDD (703) 883-4444.

SUPPLEMENTARY INFORMATION: Section 5.15 (12 U.S.C. 2250) of the Farm Credit Act of 1971, as amended, (1971 Act) requires that prior to the first day of each fiscal year, the Farm Credit Administration (FCA) shall determine the cost of administering the 1971 Act for the subsequent fiscal year, the amount of assessments required to pay such administrative expenses, and provide for a necessary reserve. The 1971 Act further requires that such assessments be apportioned among the Farm Credit System (System) institutions on an equitable basis as determined by the FCA. Such apportioned amounts are to be assessed and collected from time to time during the fiscal year as determined necessary by the FCA. In addition, section 5.15 of the 1971 Act requires the FCA to determine the amount of assessments needed to pay the costs of supervising and

examining the Federal Agricultural Mortgage Corporation (Farmer Mac) and to assess and collect such amount from Farmer Mac from time to time during the fiscal year.

The Agricultural Credit Act of 1987, Pub. L. 100-233, (1987 Act) amended the 1971 Act by, among other things, providing for the restructuring of the System. Under the 1987 Act, the Federal land banks (FLBs) and Federal intermediate credit banks (FICBs) were required to merge to form Farm Credit Banks (FCBs). In addition, 10 of the 12 banks for cooperatives (BCs) and the Central Bank for Cooperatives merged to become the National Bank for Cooperatives. Other significant changes resulting from the 1987 Act are the mergers of some Federal land bank associations (FLBAs) and production credit associations (PCAs) into agricultural credit associations (ACAs), the creation of Federal land credit associations (FLCAs), and the establishment of Farmer Mac and the Farm Credit System Financial Assistance Corporation. In addition, the 1987 Act increased the complexity of and the requirements applicable to the regulatory, supervisory and examination functions of the FCA.

Based on the substantial structural and statutory changes to the System as a result of the 1987 Act, the agency determined that it was necessary to review and modify, as necessary, the procedures for assessment of institutions. The agency's review of the existing procedures suggested that they were no longer reliable or valid ways to levy assessments and could result in inequities for certain institutions. The current method of FCA assessment is based on a formula originally developed to

apply to System banks and associations in existence prior to the 1987 Act. This formula allocated the annual assessments to the banks and associations in each Farm Credit district using a complex algorithm incorporating comparisons of the average share of System loans outstanding and loans made for a 13-month period preceding the issuance of the assessments for the institutions in each district. The annual assessments were then allocated to banks and associations within each district with 43.8 percent of the total assessment allocated to the associations within a district and 56.2 percent allocated to the banks within each district. Both the FLBs and the FICBs were allocated 40 percent of the banks' allocation in each district, while the BCs were allocated 20 percent. The allocation to the associations was divided equally between the PCAs and FLBAs. Although the assessment method allocated a percentage of the assessments on the basis of the associations' share of loans made and loans outstanding, the FCA did not assess associations. The full amount of annual assessments were apportioned among the FLBs, FICBs, and the BCs.

Due to the mergers and other changes in the System as a result of the 1987 Act, the FCA determined that it was not equitable to calculate the annual assessments based on the preceding formula. Beginning with the assessments for fiscal year 1990, the annual assessments were based on the percentages of loans made and loans outstanding that were calculated to determine the fiscal year 1989 assessments. The annual assessments are now apportioned among the FCBs, the BCs, and the FICB of Jackson. FCA has continued to allocate a percentage of the assessments to associations but has not assessed associations. However, the FCBs are

provided with the percentage of the districts' assessments that are allocated to the associations. Some FCBs obtain funds from their affiliated associations to cover a portion of the FCBs' assessments according to their own formulas.

Inconsistencies among the FCBs as to whether and how they collect reimbursements from associations for the assessments they pay suggested that there was a need for direct assessment of all System institutions including associations. In addition, since 1986, there has been substantial interest expressed by some System institutions that the FCA should review and revise the assessment formula to eliminate perceived inequities. In response to these concerns, the FCA is proposing revised assessment procedures in new part 607 and is also proposing to delete 12 CFR 618.8230 which provides in general terms for FCA's current assessment procedures.

I. Proposed Assessment Procedures for System Institutions.

The proposed regulations provide that the assessment for FCA's annual administrative expenses would be based on the amount of the FCA's budget for each fiscal year plus a necessary reserve as provided for in section 5.15 of the 1971 Act. In order to determine if any reserves are necessary and the amount of any such reserves, the FCA would consider the possibility of a sizable receivership, a major lawsuit, or other expenses or activities which could result in an extra-ordinary increase in its annual expenses. Annual assessments would then be equitably apportioned among the System institutions in accordance with section 5.15.

In order to apportion each assessment equitably, the FCA has considered a variety of factors and criteria.

First, the FCA analyzed the amount of the agency's resources that are devoted to the various System institutions based on factors such as organization size and function, the frequency of statutorily required examinations, examination scope, and FCA regulatory and supervisory responsibilities. Based on this analysis, the agency determined that it would not be equitable to establish a fixed proportional assessment based on the consumption of FCA resources. For example, small entities and/or entities under economic and financial stress may claim a disproportionate share of the FCA's resources at a given time. In contrast, larger and/or healthier entities which may require fewer FCA resources, will often have a larger capacity for absorbing such costs. The FCA determined that it would be most equitable if these sometimes competing considerations were balanced. Finally, in considering how to arrive at an equitable apportionment, the FCA took into consideration the functional and structural differences between banks and associations as compared with the other System institutions. This analysis indicated that it was necessary to use different assessment methods for these types of institutions.

A. Assessment of Banks and Associations.

Based on the foregoing considerations, the FCA proposes in § 607.3 that the assessments for FCA's annual expenses would be apportioned among banks and associations on the basis of average assets within a tiered structure establishing asset-size ranges. The same rate of assessment would be applied to all assets within each range, and the rate of assessment would decrease as asset size increases. Thus, all banks and associations would pay the same amount on assets up to a prescribed level, but larger institutions

with a larger asset base would pay a lower rate on assets above the prescribed amount.

A sample annual assessment based on the table in proposed § 607.3 would be as follows:

Average Asset Size Range (in millions)		Assessment Rate	Total Amount Assessed
Over	To		
$0	$25	X_1	X_1
$25	$50	X_2	X_1+X_2
$50	$100	X_3	$X_1+X_2+X_3$
$100	$500	X_4	$X_1+X_2+X_3+X_4$
$500	$1000	X_5	$X_1+X_2+X_3+X_4+X_5$
$1000	$7000	X_6	$X_1+X_2+X_3+X_4+X_5+X_6$
$7000	--	X_7	$X_1+X_2+X_3+X_4+X_5+X_6+X_7$

Example: XYZ bank has average assets of $500.4 million.

X_1 = .000813 therefore $25,000,000 X .000813 = $ 20,325.00

X_2 = .000788 therefore $25,000,000 X .000788 = 19,700.00

X_3 = .000710 therefore $50,000,000 X .000710 = 35,500.00

X_4 = .000633 therefore $400,000,000 X .000633 = 253,200.00

X_5 = .000491 therefore $400,000 X .000491 = 196.00

Total Assessment = $328,921.00

This asset-based approach, using a sliding scale, would be a fair and equitable approach in allocating the Farm Credit Administration's annual expenses for the following reasons. The asset-based assessment is an approach that recognizes economies of scale through a reduced assessment rate for institutions with greater total assets. It is a flexible approach capable of changing according to structural changes within the System. The asset-based

assessment is simple and straightforward and does not involve a complicated formula or significant administrative costs. The FCA also notes that the proposed asset-based assessment is similar to the assessment formulas used by the Office of the Comptroller of the Currency and the National Credit Union Administration.

FCA considered other assessment procedures including an assessment formula based on actual costs incurred in examining an institution and a formula based on the financial condition of an institution. However, FCA considered these assessment methods to be less equitable and administratively unsuitable for the following reasons. A true direct-cost assessment would have to be a retroactive assessment determined only after the completion of examination activity for the assessment year. However, section 5.15 requires FCA to determine the annual assessment prior to the beginning of each fiscal year.

Further, a direct-cost assessment based on hourly examiner time could result in inequities based on the time required to conduct a thorough examination and the different qualification levels of FCA examiners. The FCA also considered the effect a direct-cost assessment procedure could have on an institution experiencing financial difficulty. A financially troubled institution may require additional examination and supervisory time which could result in an assessment which could have a severe adverse impact on the already weak institution.

Another option the FCA considered was a risk-based assessment which could be computed by adding to an asset-based annual assessment an additional charge for an institution's credit quality or a charge for institutions

operating under enforcement or supervisory actions. However, the FCA determined that the potential adverse impact of an assessment based on financial or operating condition could result in serious inequities. For example, a weak institution or an institution operating under an enforcement action may or may not require more FCA resources than an institution in good financial condition or one not operating under an enforcement action. Also, a weak institution or one operating under an enforcement action may be unable to pay a substantially higher assessment.

Under the proposed asset-based procedure, assessments of banks and associations would be based on the average assets of each institution. Average assets would be the sum of the average daily assets as of the last day of the quarter as reported on Call Report Schedule RC-G for each of the four quarters immediately preceding the last fiscal quarter of each fiscal year, divided by four. For example, banks and associations would be assessed for fiscal year 1992 on the basis of average daily assets reported for the quarters ending September 30, 1990, December 31, 1990, March 31, 1991, and June 30, 1991. Because a bank or association in receivership continues as an institution chartered under the 1971 Act until such time as the liquidation is complete and the charter of the bank or association is canceled (see 12 CFR 611.1169, 611.1176), such institutions would be assessed in the same manner as banks and associations not in receivership.

Any method of assessment of banks and associations must be flexible enough to apply in situations where new institutions are chartered. The FCA believes that the

proposed asset-based assessment procedure provides the needed flexibility to be applicable in these situations. Assessments of new banks and associations created through mergers, consolidations or transfers of direct lending authority would be based on the assets of each constituent institution up to the time the new institution is chartered. From the time the new institution is chartered, the assessment would be based on the assets of the new institution. The assets of the constituent institutions and the new institution would be averaged over the four quarters immediately preceding the last fiscal quarter of the fiscal year in which the new institution was chartered. For example, an existing FLBA receives direct lending authority from an FCB, and the resultant FLCA is chartered in April of fiscal year 1991. The assessment for fiscal year 1992 would be based on the sum of the average daily assets of the FLBA as reported on Call Report Schedule RC-G filed for the quarters ending September 30, 1990, December 31, 1990, and March 31, 1991, and the average daily assets of the FLCA as reported for the quarter ending June 30, 1991, divided by four.

Assessment of new banks and associations that were not formed as a result of a merger, consolidation, or transfer of direct lending authority, but were formed prior to July 1 of the fiscal year, would be assessed based on the assets of the new institution averaged over the number of quarters of its existence through the quarter ending June 30. Therefore, an FLCA chartered in January of fiscal year 1991 would be assessed for fiscal year 1992 on the basis of the sum of its average daily assets reported for the quarters

ending March 31, 1991, and June 30, 1991, divided by two. Assessment of banks and associations formed during the period July 1 through September 30 of a fiscal year that were not formed as a result of merger, consolidation, or transfer of direct lending authority would be based on the assets of the new institution for the quarter ending September 30. For example, an FLCA chartered in September of fiscal year 1991 would be assessed for fiscal year 1992 on the basis of the average daily assets reported on Schedule RC-G for the quarter ending September 30, 1991.

B. Assessment of the Federal Agricultural Mortgage Corporation.

Section 5.15 of the 1971 Act requires the FCA to determine the amount of assessments that will be required to pay the costs of supervising and examining Farmer Mac and collect such assessment from Farmer Mac from time to time during the fiscal year. The proposed regulations provide that Farmer Mac would be assessed on the basis of estimated direct expenses of examination plus a proportionate share of indirect expenses.

In order to determine the cost of supervising and examining Farmer Mac for a fiscal year, the proposed regulations provide that direct expenses for the most recent full scope examination preceding each September 15 would be adjusted to reflect expected increases or decreases in FCA activity related to Farmer Mac for the next year. A full scope examination is an examination of all operational areas of an institution. This would yield the estimated direct expenses for the examination of Farmer Mac for the ensuing fiscal year. Direct expenses are examination expenses which

can be identified and attributed to an FCA function regarding a specific institution, such as Farmer Mac. Thus, the direct expenses for FCA examination activity that can be identified as having been incurred solely in the conduct of Farmer Mac activities would form the basis for the annual assessment of Farmer Mac.

FCA's indirect expenses for supervising and examining Farmer Mac would be determined on the basis of the estimated direct expenses for examining Farmer Mac as a percentage of FCA's total budgeted expenses for examination. Indirect expenses include supervisory expenses and FCA's overhead and other expenses that cannot be broken down into amounts that directly correlate to FCA's examination activity with respect to a specific institution, such as Farmer Mac. Therefore, the proposed regulation provides that the indirect costs for examining and supervising Farmer Mac would be a function of its direct expenses for examination. The combination of estimated direct expenses and indirect expenses would reflect the total estimated cost of supervising and examining Farmer Mac for a fiscal year.

Estimated direct expenses are used as the basis for the calculation of the assessment of Farmer Mac based on the continuing nature of FCA's supervisory and examination responsibility and FCA's statutory authority in section 5.15 to collect the assessment from Farmer Mac from time to time during the fiscal year. Section 8.11 of the 1971 Act provides that FCA shall examine Farmer Mac at such times as the FCA Board may determine, but not less than once each year. Therefore, FCA will incur direct and indirect examination and supervision expenses relating to Farmer Mac

at least once each year. The level of such expenses will vary according to the frequency of examinations required, the complexity of those examinations and the level of supervision required. By using the direct expenses from the previous examination to estimate the cost necessary to supervise and examine Farmer Mac throughout the fiscal year, FCA can determine its assessment of Farmer Mac at the beginning of each fiscal year and collect such amount in equal quarterly installments. This proposed method of assessment would ensure that FCA is able to maintain the resources necessary to enable it to fulfill its statutory responsibilities of examination and supervision of Farmer Mac.

C. Assessment of Other System Entities.

System institutions other than banks and associations are also subject to assessment of an equitable portion of FCA's annual administrative expenses and necessary reserves in accordance with section 5.15 of the 1971 Act. These System institutions would be defined as "other System entities" which would include service corporations chartered under section 4.25 of the 1971 Act, the Farm Credit System Financial Assistance Corporation, and any other entities statutorily designated as Farm Credit System institutions. Farmer Mac has been included within the general definition, "other System entities", because the method of assessment proposed for these institutions is the same as the method proposed for the assessment of Farmer Mac.

Because the other System entities are few in number, have a different asset base, and often have a wide ranging impact, they require a different form of regulatory

oversight than that required for banks and associations. Consequently, it is not practical to assess these entities on the basis of average assets. Therefore, the proposed regulations provide that other System entities would be assessed on the basis of estimated direct expenses plus an allocable portion of indirect expenses. Direct and indirect expenses for these institutions would be calculated in the same manner as that proposed for Farmer Mac. That is, the direct expenses for the most recent full scope examination prior to September 15 would be adjusted to reflect expected changes in FCA activity regarding an institution for the upcoming fiscal year. This would yield FCA's estimated direct expenses for examination of the institution.

In addition, a proportionate share of FCA's indirect expenses would be allocated to each institution based upon that institution's estimated direct expenses as a percentage of FCA's total budgeted expenses for examinations. Thus, the indirect expenses would include expenses of examination activity which cannot directly be identified to a specific institution and supervisory and regulatory expenses which also cannot be identified to a particular institution.

II. Notification and Payment of Assessments.

Under the proposed regulations, the FCA would provide each System institution with a notice of assessment specifying the total amount of the annual assessment, the fiscal year covered by the assessment, the amounts of the installment payments and the dates on which such payments are due. For banks and associations, the notice of assessment would also include the assessment table. The notice of assessment would be the only billing from FCA.

The total annual assessment would become an obligation of the assessed entity on October 1 of each fiscal year. However, based on the flexibility provided in section 5.15 to collect annual assessments from time to time during the fiscal year, the total annual assessment would be payable in four equal quarterly installments on October 1, January 1, April 1, and July 1.

The assessment for banks and associations chartered during the period July 1 through September 30 that were not formed as a result of mergers, consolidations, or transfers of direct lending authority would be determined by the FCA prior to December 15. Such assessment would become an obligation of the institution on January 1 and would be payable in three equal installments on January 1, April 1, and July 1.

For any System institution whose charter is to be canceled, all remaining installment payments on the institution's total assessment for a fiscal year become due and payable and must be provided for prior to the cancellation of the institution's charter. The proposed regulations also provide for the payment of interest, penalties, and expenses of collection on all assessments that are determined to be delinquent.

III. Reimbursement of Other Examination Expenses.

Pursuant to 12 U.S.C. 3025, the FCA is authorized and directed to examine and audit the National Consumer Cooperative Bank, doing business as the National Cooperative Bank (NCB), and receive reimbursement from the NCB for such examinations and audits. Due to the close structural relationship between the NCB and the NCB Development

Corporation (NCBDC) provided for in 12 U.S.C. 3051, the FCA also examines the NCBDC as part of its examination of the NCB. The FCA has separately billed the NCBDC for the expenses associated with its examination by the FCA.

The proposed regulations define the NCB and the NCBDC as "non-System entities". Proposed § 607.8 provides that reimbursable billings for FCA examination of non-System entities would be based on actual direct expenses incurred for the examinations plus a portion of indirect expenses allocated on the basis of direct expenses incurred as a percentage of total examination expenses of the FCA.

The amounts assessed other System entities and the reimbursements received from the non-System entities would be deducted from the total amount of assessments of banks and associations in order to ensure that banks and associations are not assessed for costs of FCA's activity with regard to these entities. The assessment of banks and associations net of amounts assessed other System entities is also necessary due to the separate assessment criteria for Farmer Mac set out in section 5.15.

List of Subjects in 12 CFR Parts 607 and 618

Accounting, Agriculture, Archives and records, Banks, banking, Claims, Credit, Finance, Government securities, Insurance, Reporting and recordkeeping requirements, Rural areas, Technical assistance.

For the reasons stated in the preamble, part 607 of chapter VI, title 12 of the Code of Federal Regulations is proposed to be added to read as follows:

PART 607--ASSESSMENTS AND APPORTIONMENT OF ADMINISTRATIVE EXPENSES

Sec.

607.1 Purpose and scope.

607.2 Definitions.

607.3 Assessment of banks and associations.

607.4 Assessment of other System entities.

607.5 Notice of assessment.

607.6 Payment of assessment.

607.7 Late-payment charges on assessments.

607.8 Reimbursements for services to non-System entities.

607.9 Reimbursable billings.

607.10 Overpayments to the Farm Credit Administration.

Authority: Secs. 5.15, 5.17; 12 U.S.C. 2250, 2252, 3025.

§ 607.1 Purpose and scope.

The regulations in part 607 implement the provisions of section 5.15 of the Act relating to Farm Credit Administration assessments. The regulations prescribe the procedures for the equitable apportionment of Farm Credit Administration annual administrative expenses and necessary reserves among Farm Credit System institutions. In accordance with section 5.15 of the Act, the regulations provide for the assessment of the Farm Credit Administration's costs of supervising and examining the Federal Agricultural Mortgage Corporation. The regulations further provide for the reimbursement of expenses incurred in performing statutorily required examinations of non-Farm Credit System entities.

§ 607.2 Definitions.

For the purpose of this part, the following definitions shall apply:

(a) Assessment means the annual amount to be paid by each System institution to the Farm Credit Administration in accordance with section 5.15 of the Act.

(b) Average asset balance means:

(1) For banks and associations with four quarters of assets as of June 30 of each year, the sum of the average daily assets as of the last day of the quarter as reported on each quarterly Call Report Schedule RC-G to the Farm Credit Administration for the most recent four quarters immediately preceding each September 15, divided by four;

(2) Except as provided in paragraphs (b)(3) and (4) of this section, for banks and associations without four quarters of assets as of June 30 of each year, the sum of the average daily assets as of the last day of the quarter reported on each quarterly Call Report Schedule RC-G to the Farm Credit Administration for the quarters in which it was in existence immediately preceding September 15, divided by the number of quarters for which the Call Report Schedule RC-G was received;

(3) For banks and associations without four quarters of assets as of June 30 that were formed through mergers, consolidations, or transfers of direct lending authority, the sum of the average daily assets as of the last day of the quarter for the most recent four quarters immediately preceding September 15 as reported on each quarterly Call Report Schedule RC-G filed by the newly chartered institution and the institutions that were merged or

consolidated or that received direct lending authority, divided by four;

(4) For banks and associations chartered during the period July 1 through September 30 of each year that were not formed by the merger or consolidation of existing System institutions or the transfer of direct lending authority from another System institution, the total of the average daily assets as of the last day of the quarter as reported on Call Report Schedule RC-G for the quarter ending September 30.

(c) Direct expenses means the actual expenses incurred by the Farm Credit Administration which are identified to the performance of examinations.

(d) Indirect expenses means all Farm Credit Administration expenses that are not specifically identified as direct expenses of examination;

(e) Non-System entities means the National Cooperative Bank and the National Cooperative Bank Development Corporation.

(f) Notice of Assessment means a written notice to each System institution showing the total amount assessed and owing, the fiscal year covered by the assessment, the amounts of installment payments, and the due dates for such payments. For banks and associations, the Notice of Assessment will also include the assessment table.

(g) Other System entities means any service corporation chartered under section 4.25 of the Act, the Farm Credit System Financial Assistance Corporation, the Federal

Agricultural Mortgage Corporation, the Farm Credit Finance Corporation of Puerto Rico, and any other entity statutorily designated as a Farm Credit System institution.

(h) System institutions means the banks, associations, and other System entities.

§ 607.3 Assessment of banks and associations.

(a) Banks and associations will be assessed annually for funds to cover a portion of the Farm Credit Administration's administrative expenses and necessary reserves. The total amount of the annual assessment to banks and associations shall be based on the Farm Credit Administration budget for each fiscal year plus a necessary reserve amount, excluding amounts to be assessed against other System entities and reimbursements received from non-System entities.

(b) The assessment shall be apportioned among the banks and associations using the average asset balance for each bank and association. The average asset balance will be used to determine where an institution's level of assets falls within the following table. The same assessment rate will be applied to each dollar value of assets falling within each range.

Average Asset Size Range (in millions)		Assessment Rate	Total Amount Assessed
Over	To		
$0	$25	X_1	X_1
$25	$50	X_2	X_1+X_2
$50	$100	X_3	$X_1+X_2+X_3$
$100	$500	X_4	$X_1+X_2+X_3+X_4$

$500	$1000	X_5	$X_1+X_2+X_3+X_4+X_5$
$1000	$7000	X_6	$X_1+X_2+X_3+X_4+X_5+X_6$
$7000	--	X_7	$X_1+X_2+X_3+X_4+X_5+X_6+X_7$

Example: XYZ bank has average assets of $500.4 million.

X_1 =.000813 therefore $25,000,000 X .000813 = $ 20,325.00

X_2 =.000788 therefore $25,000,000 X .000788 = 19,700.00

X_3 =.000710 therefore $50,000,000 X .000710 = 35,500.00

X_4 =.000633 therefore $400,000,000 X .000633 = 253,200.00

X_5 =.000491 therefore $400,000 X .000491 = 196.00

Total Assessment = $328,921.00

(c) Assessments will be adjusted annually to reflect changes in the Farm Credit Administration budget, necessary reserves, and average assets.

§ 607.4 Assessment of other System entities.

Other System entities will be assessed for estimated direct expenses plus an allocated portion of Farm Credit Administration indirect expenses. The estimate for direct expenses shall be based on the actual direct expenses incurred in the most recent examination of each entity preceding each September 15. The actual direct expense may be adjusted to reflect expected increases or decreases in planned work, budgets, and reserves, as applicable, for each fiscal year. A proportional amount of Farm Credit Administration indirect expenses will be allocated to each entity based on the estimated direct expenses related to the particular entity as a percentage of the total budgeted direct expenses of the agency for the fiscal year covered by the assessment.

§ 607.5 Notice of assessment.

(a) Except as provided in paragraph (b) of this section, prior to September 15 of each year, the Farm Credit Administration shall determine the amount of assessment to be collected from each System institution under §§ 607.3 and 607.4 of this part and shall provide each System institution with a Notice of Assessment prior to October 1 of each fiscal year. The total amount assessed each System institution in the Notice of Assessment shall be an obligation of each institution on October 1 of each fiscal year. The total amount assessed each System institution shall be payable in equal quarterly installments on October 1, January 1, April 1, and July 1 of each fiscal year.

(b) For banks and associations chartered during the period July 1 through September 30 of each year, the Farm Credit Administration shall determine the amount of assessment to be collected from each such institution prior to December 15 and shall provide the institution with a Notice of Assessment prior to January 1. The total amount of the assessment becomes an obligation of the institution on January 1 and shall be payable in three equal installments on January 1, April 1, and July 1. This paragraph shall not apply to banks and associations formed by merger, consolidation, or transfer of direct lending authority.

(c) In the event of the proposed cancellation of the charter of a System institution, the unpaid installments of the total amount of the institution's assessment shall be provided for prior to the cancellation of the charter.

§ 607.6 Payment of assessment.

(a) System institutions shall pay the amounts due as scheduled in the Farm Credit Administration Notice of Assessment. Payment shall be made either by electronic funds transfer (EFT) for credit to the Farm Credit Administration's account 78X4131 in the Department of the Treasury or by check to the Farm Credit Administration for deposit.

(b) Payments made by EFT that are not received by the close of business on the due date shall be considered delinquent in accordance with § 607.7 of this part.

(c) Payments made by check that are not received by the Farm Credit Administration before the close of business on the third workday preceding the due date shall be considered delinquent in accordance with § 607.7 of this part.

§ 607.7 Late-payment charges on assessments.

(a) Failure to timely pay any portion of the scheduled installment amount due of an institution's total assessment shall result in the full installment amount due being considered delinquent. Failure to timely pay any reimbursement amount shall result in such amount being considered delinquent.

(b) Delinquent amounts shall be charged late-payment interest at the United States Treasury Department's current value of funds rate published in the Federal Register. Application of the rate shall be on a simple interest basis using a 360-day year starting on the due date of the delinquent amount and continuing through the date of receipt by the Farm Credit Administration.

(c) The Farm Credit Administration shall waive the collection of interest on the delinquent amounts if such amounts are paid within 30 days of the date interest begins to accrue. The Farm Credit Administration may waive interest due on delinquent amounts upon finding no fault with the performance of the remitter.

(d) The Farm Credit Administration shall charge an amount necessary to cover the administrative costs incurred as a result of collection of any delinquent amount.

(e) The Farm Credit Administration shall charge a penalty of 6 percent on any portion of a delinquent amount that is more than 90 days past due. Such penalty shall accrue from the date the amount became delinquent.

§ 607.8 Reimbursements for services to non-System entities.

Non-System entities will be assessed for direct expenses for examination plus an allocated portion of Farm Credit Administration indirect expenses. The Farm Credit Administration shall record the direct expenses incurred in the performance of an examination of a non-System entity and the rendering of required reports of examination. The Farm Credit Administration shall add a portion of its indirect expenses to the direct expenses for an examination. Indirect expenses shall be allocated based on the ratio of actual direct expenses incurred for each such examination to the total budgeted examination expenses of the Farm Credit Administration.

§ 607.9 Reimbursable billings.

The Farm Credit Administration shall bill the amounts due for services to non-System entities each year subsequent to the issuance of their respective Reports of Examination.

Amounts billed are due in full within 30 days from the date billed. If the billed amount or any portion thereof remains unpaid at close of business on the due date, the entire amount billed shall be considered delinquent in accordance with § 607.7 of this part.

§ 607.10 Overpayments to the Farm Credit Administration.

Any amounts paid to the Farm Credit Administration in excess of the total annual assessment or amounts billed for reimbursement under this part 607 shall be refunded in principal amount only.

PART 618--GENERAL PROVISIONS

1. The authority citation for part 618 continues to read as follows:

Authority: Secs. 1.5, 1.11, 1.12, 2.2, 2.4, 2.5, 2.12, 3.1, 3.7, 4.12, 4.13A, 4.25, 4.29, 5.9, 5.10, 5.17; 12 U.S.C. 2013, 2019, 2020, 2073, 2075, 2076, 2093, 2122, 2128, 2183, 2200, 2211, 2218, 2243, 2244, 2252.

Subpart F--Miscellaneous Provisions

§ 618.8230 [Removed and Reserved]

2. Subpart F is amended by removing and reserving § 618.8230.

Date: 7/27/81

Curtis M. Anderson,
Secretary,
Farm Credit Administration Board.

Question 5. Your testimony indicates very little activity within the Farmer Mac program. Can you explain why there has not been more interest in Farmer Mac? If there are any authorities lacking to properly utilize Farmer Mac, can you suggest what they might be? Is FCA doing anything to encourage better use of Farmer Mac?

Answer. The primary reason for the lack of activity in the Farmer Mac I program is that under current conditions long-term mortgage rates offered under the Farmer Mac structure are viewed as relatively unattractive by borrowers and lenders. In Farmer Mac's target market -- high quality borrowers -- there is stiff competition. Farmer Mac's ultimate success hinges on its competitive attractiveness, and there is little the FCA, as an independent regulator, can do to alleviate the competitive pressures on Farmer Mac. Other factors impeding Farmer Mac's progress include: (1) the current market of lenders interested in selling loans is limited due to the high level of bank liquidity, (2) the FFIEC capital guidelines, effective December 31, 1990, imposed full capital requirements on loans sold into Farmer Mac pools, and, (3) educating potential participants about the benefits of utilizing Farmer Mac I is a long and difficult process, due in part to the complexity of the program. On the positive side, Farmer Mac has moved swiftly to develop the Farmer Mac II program where guaranteed portions of FmHA loans are pooled and securitized. The Farmer Mac II program is less complex and Farmer Mac does not face such highly competitive forces as in the Farmer Mac I program. Furthermore, the Farmer Mac II program may be the catalyst which stimulates the Farmer Mac I program.

FARM CREDIT SYSTEM INSURANCE CORPORATION

Question 6. What is FCA's position on the proposal to create a separate board for the Farm Credit System Insurance Fund? What is the projected cost of establishing such a board?

Answer. Although the FCA is aware that a separate board has been suggested, the FCA has not been provided with any details on such a proposal. Nevertheless, the FCA believes the current concept represents the most cost-efficient, effective system. Without the details of such a proposal, we can not project the cost; however, the separation of the insurance function into a new bureaucracy would undoubtedly be more expensive than the current method.

Question 7. Are there any indications to suggest that the 2% secure base will be adjusted to maintain actuarial soundness? What criteria is the FCA using to determine actuarial soundness of the secure base?

Answer. Inasmuch as it will take a number of years to reach the secure base amount, the FCSIC has yet to address any change to the secure base amount based on an actuarially sound basis.

GOVERNMENT-SPONSORED ENTERPRISES

Question 8. There have been suggestions that all government-sponsored enterprises, such as the Farm Credit System, be rated by a private rating agency such as Moodys or Standard and Poors on the assumption that securities issued by these enterprises do not have agency status. Do you believe this is an appropriate function for a private rating agency or should this be the responsibility of a government agency.

Answer. The FCA is philosophically opposed to using a public corporation to perform a Government function, namely determining the level of Government involvement in GSEs. In addition, inconsistencies among ratings by different rating services suggest that assignment ratings is an "art" rather than a science, and are not always a leading indicator of problems.

Question 9. What are your views on the proposal to establish a super-regulator for government sponsored enterprises or any of the other suggestions coming from the Treasury Department to bolster such enterprises in general? How would any of these changes affect the cost of regulating the Farm Credit System? How do you think these changes would affect the ability of the Farm Credit System to function in a manner that is responsible to its member-stockholders.

Answer. The FCA has reviewed a number of proposed organizational structures for GSEs including the super regulator mentioned in your question. The FCA generally favors Government regulation of GSEs at a level sufficient to protect the public interest. The FCA believes it is a true arm's-length regulator, and, as such, should remain the regulator of the Farm Credit System and Farmer Mac.

To date, the various organizational proposals have lacked sufficient detail to determine their impact on the cost of regulation or the responsiveness of the FCS to its borrowers.

QUESTIONS SUBMITTED BY SENATOR KERREY

REGULATIONS

Question. I have been contacted by a borrower with the Bank for Cooperatives (CoBank) expressing concern about FCA's proposed new rules regarding appraisal standards and lending limits, issued on January 23rd. This CoBank borrower has expressed a strong desire in having FCA hold public hearings on its proposed new rules.

Mr. Steele, my question to you is: Does the FCA plan to hold public hearings on the proposed rule? If not, why not?

Answer. The FCA is currently reviewing the comments received relative to the proposed appraisal and lending limit regulations that were published on January 23, 1991. Given the significance of the issues addressed by these proposed regulations and the concern expressed by a number of the comments received, it is the intention of the FCA to hold public hearings on the proposed regulations. Once we have finished reviewing the comments received, an announcement will be made as to when and where the public hearings will be held.

INSPECTOR GENERAL

Question. Recently one of my constituents brought to the attention of FCA's Office of Inspector General allegations that in 1986 he was forced from the Board of Directors of his Farm Credit Bank and forced to leave the Farm Credit System as a borrower -- at considerable loss of money and property -- because he questioned the Bank's policies at the time. In 1989, my constituent initiated a lawsuit over the matter.In a February 25, 1991 letter to my constituent, the Office of Inspection (sic.) General informed him that "all complaints which are sent to us do not fall within the purview of the Inspector General Act of 1978 ..." Can you tell me whether the IG at FCA has the authority to investigate allegations of improper dismissal and denial of credit to Board members?

Answer. The Inspector General Act of 1978, as amended, states, in part: It shall be the duty and responsibility of each Inspector General, with respect to the establishment within which his Office is established - (1) to provide policy direction for and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of such establishments; 5 U.S.C. Appendix 3, Section 4(a)(1).

Regulation, supervision, and examination of Farm Credit System institutions are all matters that are under the jurisdiction of the Farm Credit Administration. See 12 U.S.C. §2254. As such, the FCA does have the authority to examine the activities of an institution and the directors of the institution from the standpoint of safety and soundness, particularly as it may relate to conflicts of interest and the exercise of the fiduciary duties of the institution's board of directors. The FCA's Office of Examination has the authority to investigate an allegation of discriminatory or coercive credit practices when it is brought to its attention or uncovered during an examination. Therefore, in an oversight and/or spot check capacity, the FCA's Office of the Inspector General has the authority to investigate the procedures and operations of the Office of Examination in order to evaluate improper dismissal and denial of credit to Board members or for others of these types of allegations.

SUBCOMMITTEE RECESS

Senator BURDICK. That concludes our hearing this morning. Our next hearing will be held on Friday, April 26, 1991, in this same room at 10 a.m. The subcommittee will receive testimony from the Secretary of Agriculture.

The subcommittee now stands in recess.

[Whereupon, at 12 noon, Friday, April 19, the subcommittee was recessed, to reconvene at 10 a.m., Friday, April 26.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1992

FRIDAY, APRIL 26, 1991

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Quentin N. Burdick (chairman) presiding.

Present: Senators Burdick, Bumpers, Harkin, Kerrey, Lautenberg, Cochran, Kasten, Specter, and Bond.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF EDWARD MADIGAN, SECRETARY OF AGRICULTURE

ACCOMPANIED BY:

JACK C. PARNELL, DEPUTY SECRETARY OF AGRICULTURE

STEPHEN B. DEWHURST, BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Senator BURDICK. Good morning, ladies and gentlemen. Today we are holding our last scheduled hearing on the fiscal year 1992 budget for Agriculture, Rural Development, and Related Agencies. It is appropriate that we wrap up our hearings with the Secretary of Agriculture, and I would like to make a special welcome to the new Secretary, Edward Madigan. We wish you well, Mr. Secretary, in a job that surely will be challenging and we look forward to working with you.

Accompanying the Secretary as witnesses are Jack C. Parnell, Deputy Secretary of Agriculture, and Steve Dewhurst, Budget Officer for the Department of Agriculture. Welcome, gentlemen.

Mr. Secretary, I am very pleased that you will be visiting the great State of North Dakota tomorrow. I look forward to going with you and being with you to take a look first hand at what our farmers are experiencing, what they are thinking, and what Federal farm policies mean to them. I might say that farmers are not entirely pleased with the farm program, but probably more important than that, if the weather would cooperate, things would be a whole lot better.

I would like you to know, Mr. Secretary, that I am pleased with certain increases in your budget. For example, your emphasis on

water quality and food safety are important steps in the right direction. Likewise, you have proposed a significant increase for the Women, Infants, and Children Program, one of the most popular programs funded by this subcommittee.

However, I also want you to know that there are some disappointments in this budget. I realize that this is not your budget, that you are new to the administration. Nevertheless, I am very disappointed by the drastic cuts in the REA programs, water and sewer loans and grants, and other rural development programs, certain conservation programs, the rural housing programs, and Public Law 480.

Finally, there has been no request for disaster assistance by the administration for our farmers. They have had significant problems caused by drought, floods, and freezes in 1990 and again this year. The Federal Government has a responsibility to maintain a strong agricultural sector. Nothing is more important for national security. Providing assistance so that farmers can weather, if you will, natural disasters goes with that responsibility. I will have some questions for you on this matter at the appropriate time.

We have your statement, Mr. Secretary. It will be made a part of the record in full. You may proceed to summarize it, if you would, and make any additional comments you desire. We will then take questions from the subcommittee.

STATEMENT OF SECRETARY MADIGAN

Secretary MADIGAN. Thank you, Mr. Chairman. May I say at the outset that it is indeed a privilege for me to appear before this committee as the new Secretary of Agriculture for the purpose of discussing the 1992 budget for the U.S. Department of Agriculture. As you have noted, I have a prepared statement, and I would ask that it be made a part of the hearing record.

Senator BURDICK. Your statement will be made part of the record in full.

Secretary MADIGAN. Thank you, Mr. Chairman. At the outset let me say that I look forward to working with you and with your subcommittee in my new role as the Secretary of Agriculture. I have taken this position to serve the President and to represent farmers and rural Americans in the highest councils of our Government. All of us know how important agriculture is to the overall economy, and we need to work together so that this sector is as strong as it can be in order that all Americans have an abundant, affordable, and safe food supply.

Based on my long association with the Congress and with agriculture, I hope that I am in a unique position to foster a good working relationship between the Congress and the administration. On February 4, Mr. Chairman, President Bush submitted his 1992 budget to the Congress. You are aware that I was not involved in the development of that budget. However, under the circumstances I believe it to be a fiscally responsible budget, and one that I can support.

As you know, the budget was developed under terms of the budget agreement reached last fall. Based on that agreement spending must be tightly controlled, and as a result significant additional funding is simply not available for programs that are important to

you and to me and to many other people who are interested in the overall vitality of America.

The budget for this Department calls for an overall program level of just over $77 billion, an increase of about $2 billion over the 1991 level. The budget continues and expands on a number of initiatives begun in 1991 with the support of Congress. These deal with food safety, competitive research, water quality, global change, strengthening the 1890 land grant institutions, and the America the Beautiful Program. To this list the expansion of the WIC program has been added.

The budget also reflects some new authorities and requirements established by the 1990 farm bill and the Budget Reconciliation Act of last fall. However, because of the spending limitations contained in that budget agreement, many of the discretionary spending authorities could not be funded, and only the most urgent and highest priority needs are included in this budget.

As you know, the administration proposed urgent supplemental appropriations for a number of programs, including the Export Enhancement Program, food stamps, meat and poultry inspection, and for the Agriculture Stabilization and Conservation Service farm bill related activities. And you and others were very, very helpful in our getting that supplemental appropriation through the Congress, and we very much appreciate both your timely consideration of those requests and favorable action that you took to ensure that these programs could continue.

Mr. Chairman, making budget decisions is never very easy, but we are obliged jointly to try to keep the Federal budget under control, and in order to do that we must be ready to make some very difficult decisions about our priorities. We therefore urge the Congress to give this budget your very closest consideration, and we stand ready to work with you over the next several months as you carry out your responsibilities under the budget agreement.

Again, I say it is my privilege to appear before you this morning, and I would be happy to answer any questions that you or Mr. Kasten and other members of the committee might have. Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator BURDICK. Thank you, Secretary Madigan. As noted earlier, we have your complete statement and it will be made part of the record.

[The statement follows:]

STATEMENT OF EDWARD R. MADIGAN

Mr. Chairman, Members of the Committee, it is indeed a privilege to appear before this Committee as the Secretary of Agriculture to discuss the 1992 budget for the U.S. Department of Agriculture.

At the outset, Mr. Chairman, let me say that I look forward to working with the Committee in my new role as Secretary. I have taken this position to serve the President and to represent farmers and rural Americans in the highest councils of our Government. All of us know how important agriculture is to the overall economy. We need to work together so that this sector is as strong as it can be in order that all Americans have an abundant, affordable and safe food supply. Based on my long association with the Congress and with agriculture, I think I am in a unique position to foster such a working relationship on behalf of the Administration.

Before addressing the budget proposals for the Department, I would like to briefly review current and prospective conditions in the agricultural sector.

CURRENT AGRICULTURAL SITUATION AND OUTLOOK

The agricultural sector began the decade of the 1990's in a more financially secure and economically sound posture than was the case in the early and mid- 1980's. Net farm income in 1990 was at a record level of $49 billion and net cash farm income, at $58 billion, was above $50 billion for the fourth straight year. These favorable aggregate net income figures are in part due to improved market receipts from crops and livestock fueled by recovery in agricultural exports in recent years. Agricultural exports in 1990 totaled about $40 billion, over 50 percent above the 1986 level of $26 billion, which was the low point for the decade.

The agricultural balance sheet has stabilized in concert with the improved farm income picture. Farmland values rose about 3 percent in 1990 following moderate increases in the three preceding years. Total farm debt fell from $193 billion in 1983 to $134 billion currently, a reduction of nearly $60 billion. As a result, the debt-to-asset ratio for the agriculture sector as a whole, at 16 percent in 1990, was slightly lower than it was in 1980 and substantially lower than the 23.9 percent level of 1985. Although economic problems remain for some commodity producers, the economic and financial health of U.S. agriculture as a whole has recovered substantially from the severe stresses of the past decade.

The recovery is also reflected in improved financial conditions for farm lenders as well as improved conditions for a number of other agricultural input suppliers, and agriculturally dependent businesses.

Fundamental changes in Government programs to allow more competitive pricing of U.S. farm products in world trade facilitated the turnaround in export sales as did improved macroeconomic conditions. As burdensome surplus stocks have been reduced, commodity prices have strengthened and support program costs have moderated over the past three years. Nonetheless, Government program benefits continue to be important for producers' income of several commodities.

OUTLOOK FOR 1991

Commodity prices overall are expected to be slightly lower than last year due to larger supplies, moderation in demand, and rising stocks of some commodities such as wheat and dairy products. Crop yields in 1990 were above trend levels and with normal conditions in 1991 will be a little lower. Total crop acreage may also decline slightly primarily due to increased acreage reduction requirements for wheat.

Potential record meat supplies and ample crop supplies should moderate food price increases. Retail food price rises of 2 to 5 percent are likely in 1991. This is less than the nearly 6 percent increase in 1990 which was influenced by recent droughts.

U.S. agricultural exports are expected to decline to about $37.0 billion in fiscal year 1991, in part due to increased production abroad and potential reductions in imports in some key markets. Livestock and poultry output is expected to rise in 1991, but market conditions are expected to remain favorable for hog and cattle producers.

This outlook is sensitive to economic and other developments both in the U.S. and abroad over the coming months. The longer term outlook for exports will be highly dependent on policy developments both in the U.S. and abroad, as well as on general economic conditions. The uncertainties for the coming months and years are greater than usual given current international events, the uncertain status of international trade negotiations, the domestic economic slowdown, and the uncertainties as to how producers will adjust to new farm programs.

Farm income is likely to be relatively stable in 1991 with net cash income likely to be in the $53-$58 billion range compared to $58 billion in 1990. Net farm income may drop slightly to the $42-$47 billion level as moderating commodity prices and potential input cost increases may limit net income.

Agriculture's financial position is likely to continue its gradual improvement. Farm asset values are expected to rise, while farm debt remains near current levels. Farm equity is expected to increase by about 2 percent. The debt-to-asset ratio is expected to continue near its current level.

NEW LEGISLATION

Of great importance to the agricultural situation in 1991 and subsequent years will be the effects of the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 and the agricultural provisions of the Omnibus Budget Reconciliation Act

(OBRA) of 1990. These two pieces of legislation together continue the market-oriented approach to farm policy contained in the successful Food Security Act of 1985 and at the same time make a significant contribution to reducing the Federal deficit.

As you know, the legislation contains twenty-five titles and is over seven hundred pages in length. Many aspects of the legislation are dependent on future appropriations action by the Congress for their implementation. However, we are issuing regulations and holding sign-ups for the farm price and income support programs.

Regulations and Federal Register notices related to implementation of these programs have been issued, and signup for these programs is being held from March 4 through April 26. The signup for the Conservation Reserve Program was held from March 4 through March 15.

Most of 1991-crop program announcements have already been made. Wheat, feedgrains, cotton, oilseeds and honey provisions were announced on December 31, 1990. The rice program was announced on January 30, 1991. The Department is working hard so that farmers have the necessary information to sign up for the 1991 commodity programs and make their planting decisions.

URUGUAY ROUND NEGOTIATIONS

The Uruguay Round of multilateral trade negotiations presents an historic opportunity to achieve meaningful reform of world agricultural trading practices. Regrettably, those negotiations suffered a setback when the ministerial meeting in Brussels the first week of December, which was supposed to be the concluding session for the Round, ended in a deadlock. The primary reason for this was the continued intransigence of the European Community (EC), Japan, and Korea on agricultural reform.

Since the negotiations were suspended, the GATT Director-General has been consulting with various countries to work out a basis for a continuation of the Round. These consultations have covered the full range of outstanding Uruguay Round issues, but agriculture was clearly identified as the key to restarting the negotiations. On February 20 the deadlock was broken. According to a statement made by GATT Director General Arthur Dunkel, all participants agree to negotiate to achieve "specific binding commitments" in each of the three key areas: internal support, export subsidies and import barriers, and to resume negotiations of a sanitary and phytosanitary agreement. With the removal of this major impasse, the Uruguay Round negotiations have now been resumed.

There are reasons for optimism. The willingness of the EC to negotiate separate disciplines on internal support, external subsidies, and import access is a major breakthrough. Furthermore, in recent weeks, the EC Commission has begun developing an ambitious package of agricultural policy reform measures that may eventually lead to an improvement in the Community's position in the negotiations. Preliminary reports indicate that it may be some time before any reforms emerge. Nevertheless, there are some signs that the reform effort has already led to a more constructive attitude on the part of the EC negotiators in Geneva.

The position of the Et is key in the negotiations on agricultural reform. Should the Europeans agree to concessions necessary for achieving an agreement, we expect that Japan and Korea will follow suit. Since the Brussels meeting, both Japan and Korea have already evidenced a willingness to take some positive steps on agriculture in an effort to help salvage the negotiations.

BUDGET PROPOSALS FOR FISCAL YEAR 1992

On February 4, President Bush submitted his 1992 budget to the Congress. You should be aware that I was not involved in the development of the budget; however, I believe it to be a fiscally responsible budget and one I can support. It is worthy of serious consideration by the Congress.

Before I discuss the details of the 1992 budget request, I would like to express our sincere appreciation for the prompt attention Congress has given to a number of 1991 urgent supplemental requests dealing with the Food Stamp Program, meat and poultry inspection, the Export Enhancement Program (EEP) and funding for the Agricultural Stabilization and Conservation Service (ASCS). Favorable Congressional action on these requests will allow these activities to continue uninterrupted and achieve their important objectives.

The 1992 budget was developed under the rules of the budget agreement approved by the President and the Congress last fall. Since the objective of this agreement was to bring the deficit under control, significant additional funding was just not available. As a result, difficult decisions about funding priorities had to be made. The budget for the Department calls for an overall program level of $77.4 billion,

an increase of $2.2 billion over the 1991 level. Cash outlays, however, are estimated to increase by only $300 million over the current estimate of $55.4 billion for 1991. In terms of this Subcommittee, the request for appropriations to finance USDA programs under current law is $44.3 billion.

Of considerable importance is that the budget continues and builds upon a number of major program initiatives begun last year with the support of the Congress. These initiatives deal with food safety, competitive research, water quality, global change, strengthening 1890 Land Grant Institutions, and the America the Beautiful Program. To this list, two important new initiatives have been added—the expansion of the Women, Infants and Children Program and a major new effort to upgrade the recreation facilities in the national forests.

The budget also reflects some new authorities and requirements established by legislation passed in the last session of Congress. This is particularly true with respect to farm price and income support programs. The budget also reflects the establishment of a new Rural Development Administration in USDA as mandated by the FACT Act. However, the spending constraints agreed to in the Budget Agreement place severe limitations on new spending. Additional funding is provided only for the most urgent and highest priority needs.

RESEARCH AND EDUCATION PROGRAMS

Like other sectors of the economy, agriculture is increasingly dependent upon technological advances to remain competitive in the global marketplace. Research is a basic mission of the Department and requires a high priority for funding mission-oriented science—both basic and applied—in order to provide our food and agricultural system with advanced technology to meet immediate and long-term challenges and take advantage of opportunities for new uses for farm commodities. Increasingly, the research agenda is driven by broader interests in the environmental area. At the same time, producers, processors and consumers of agricultural products face traditional, long- standing issues. A revolution in the biological sciences is providing researchers with powerful new tools to address these challenges with much more precision.

Foreign governments are investing heavily in agricultural technology to compete in an increasingly world-oriented market for agricultural products. The United States needs to invest in the science base necessary to keep a competitive position in world agricultural markets without compromising the environment. USDA budget proposals will advance the basic scientific understanding in the food and agricultural sciences and will fund programs necessary to translate that fundamental knowledge into practical solutions for real world problems encountered by farmers, processors and consumers.

There are proposals in the budget to enhance research programs at Federal laboratories and through increased funding at the land-grant universities. A centerpiece of the 1992 budget is $53 million in additional funding for the National Research Initiative (NRI) competitive grants program, consistent with a commitment the Administration made last year to increase funding to the extent that funds are made available for award on a competitive basis. Maintaining a strong university research capacity is critical to the success of the initiative. Increases are also proposed for the Hatch and 1890 institutions research formula programs. The budget would eliminate grants earmarked for local interest and lower priority projects which can be continued by the States at their discretion with formula allocations.

The partnership with the historically black 1890 land-grant institutions is an important one and there is a proposal to increase funding for the successful 1890 Capacity Building Grants program by one-third. Response to the program has been impressive—both in terms of numbers of proposals and their quality. Further, these institutions have been successful in obtaining matching funds from States and other sources. Therefore, it is proposed to make matching a requirement for the 1992 program.

Federal laboratories of the Agricultural Research Service (ARS) continue to support long-term research programs to address national priority objectives. Programs already underway in the ARS provide a solid base for expansion.

There are important budget proposals for research on water quality, global change, sustainable production, food safety and a range of related issues. An increase is also proposed for research to improve the process for conversion of agricultural commodities to produce ethanol.

Consumers are more aware and concerned about the safety of their food. Research in this area requires a comprehensive approach, beginning with production and carrying through to marketing of farm products. Proposed research will develop production practices and systems to help farmers and ranchers avoid residues in foods and

will provide improved tools to regulatory agencies to test for contamination. This work is closely tied to the Department's overall food safety initiative.

A critical element to the ultimate success of research is assuring its transfer to the end user. The budget proposes an increase above this year's funding level for Extension Service programs. In addition to providing increases for the basic formula programs, there are proposals to increase some of the high priority designated programs. In conjunction with the priorities for research, Extension programs in water quality, integrated pest management and food safety are included in the budget at increased levels. There is also a proposal to double funding for the Youth at Risk Program which is being initiated in 1991 with funding of $7.5 million. Response to the program has been outstanding as evidenced by a grant of $5.9 million to the program from the Kellogg Foundation. Funds are not proposed for the continuation of certain lower priority and local interest Extension activities which can be continued at the discretion of the States with formula funds.

The critical element to the long-term viability of research and extension programs is the availability of creative human talent. We're concerned about declining enrollments in agriculture and related fields at the college level. At the same time, we see significant opportunities to attract bright students to this rapidly advancing field.

The budget includes a request to expand the highly successful graduate training grants program and to continue the competitive challenge grants program. Both programs generate intense interest and excellent proposals. These programs attract outstanding students to the field of agriculture that are so necessary to the long-term viability and competitiveness of the agricultural sector.

Scientists can meet the objectives for state of the art research only if they are provided adequate physical facilities. This means safe surroundings and functional arrangements that will accommodate modern scientific equipment and procedures. There are budget proposals for priority ARS facilities, including continued funding for the Beltsville modernization. In addition, recognizing the major increase in funding for national priority research which is represented by the NRI, there is a proposed program of competitive grants for the upgrade and construction of university research facilities. The facility program is included in the budget at $25 million for 1992, with a plan to fund the program at a level equal to 20 percent of the NRI in future years. This program will provide a mechanism to fund priority university facility needs provided that funds are made available on a merit basis.

rural development

The Administration's rural development policy is based on the following principles:

—Most rural areas must diversify their economic base. Agriculture, forestry, mining and, in some cases, tourism will remain important sources of income, but economic growth and stability require diversification.

—There is no single strategy that will serve the rural development needs of all rural areas. Appropriate strategies must be worked out for different regions of the country and the special circumstances of individual rural areas.

—Federal programs can be improved and resources better focused and coordinated toward meeting the development needs of rural communities. It is not necessary to add a host of new programs, and it is not realistic to promise additional funding while the budget deficit remains a matter of serious concern.

—The private sector must have the lead role in rural development. The Federal Government can provide assistance but, ultimately, job creation is a private sector responsibility. The private sector also can make many important contributions to the quality of life in rural areas.

Accordingly, the President's Council on Rural Development was established at the national level and rural development councils are being established at the state level. These councils have been charged with the responsibility of providing policy advice on rural development matters with an emphasis on economic diversification, flexibility to account for regional and local difference, budget realism, and opportunities for private sector involvement.

The FACT Act includes many new authorities for providing rural development assistance. As the Administration testified during deliberations on the 1990 Farm Bill, we think that many of these authorities duplicate existing authorities. If implemented, they would compete with our existing programs for limited funding.

The 1992 budget does, however, provide for the establishment of the Rural Development Administration as required by the FACT Act. The budget reflects the transfer of the community and business programs currently administered by the Farmers Home Administration (FmHA). The FACT Act also provides discretionary authority to transfer other USDA programs, and consideration is being given to which USDA programs would be best suited for administration under the new agency. Any addi-

tional transfers would, however, be made within the budget resources requested for the programs involved.

The 1992 budget reflects strong support for our existing rural development programs. It includes more loans and grants than were obligated in 1990, although somewhat less than authorized for 1991. The budget includes $425 million in direct loans for water and waste disposal systems, $46 million in direct loans and $50 million in loan guarantees for community facilities, and $95 million for business and industry loan guarantees. The relending program under the rural development loan fund would be increased to $35 million. In addition, the budget includes $225 million for water and waste disposal grants and $20 million for other rural development grants.

The Rural Development Administration would have a staff year ceiling of 925 and an administrative expense budget of $73 million. This includes $2.6 million for the State Rural Development Councils. During 1991 Councils will be established in eight states. The $2.6 million for 1992 coupled with $3.0 million included in the budget requests of the Departments of Housing and Urban Development, Interior, Labor, Transportation, Health and Human Services, Veterans Affairs and the Small Business Administration will be used to support Councils in additional States.

Planning for the field structure and administrative support for the new agency is just getting underway. Every effort will be made to ensure continuity and efficiency in program delivery during the transition.

RURAL ELECTRIFICATION

For the Rural Electrification Administration (REA) we are again proposing reforms to reduce the amount of direct loan assistance and to rely more on guarantees of private sector financing. An important step in this direction was taken in the OBRA last fall. It provided for a shift of 25 percent of REA's direct loan authorization to private sector financing. The 1992 budget proposal builds on this initiative.

The budget provides $200 million in direct loans for electric distribution systems. Direct loans would be used as a safety net for borrowers who truly cannot afford to pay private sector interest rates or simply cannot obtain such financing.

The bulk of the electric program would consist of $1.1 billion in guarantees of private sector financing for distribution and power supply purposes. The Rural Telephone Bank (RTB) would provide $275 million in telephone loan guarantees as well as $125 million in direct loans for telephone systems. The guarantees would be for 90 percent of the principal and interest on power supply loans and 70 percent of the principal and interest on distribution and telephone loans.

The legislative proposal which will be submitted to Congress also calls for increase in the interest rate on RTB direct loans to the cost of Treasury borrowing, as well as an origination fee on loan guarantees.

RURAL HOUSING

For rural housing, the budget proposal is similar to the one made last year. It provides for a diversified program that would include $694 million in loan guarantees, half of which would be subsidized. These loan guarantees would be for single family housing and would complement $559 million in direct loans for such housing. The guarantees would be for 90 percent of principal and interest. The interest subsidy on guarantees would average about 4 percent. The subsidy is comparable to the interest subsidy on direct loans.

The budget also provides $341 million in direct loans for rural rental housing, $270 million in rural rental assistance payments, $190 million in housing vouchers, $27 million in other direct loans and $20 million in other grants, and $284 million in sales of inventory properties.

Overall, the budget provides for the funding of about 63,000 housing units compared to about 71,000 estimated for 1991. The drop occurs primarily due to decreases in repair and preservation grants, where it is anticipated that block grant money proposed in the President's Budget for the Department of Housing and Urban Development, will be available to meet these needs.

The 1991 Agriculture Appropriations Act included $100 million in loan guarantees for single family housing ($70 million unsubsidized and $30 million subsidized). This initial authorization will provide a base for the increase in loan guarantees requested for 1992. The interest subsidy on these guarantees should be sufficient to reach a significant portion of the low income families now served with direct loans. Unsubsidized guarantees will be used to reach moderate income families who can afford to pay private sector interest rates but require a guarantee to obtain financing. The use of guarantees, in general, will encourage more private sector participation in supplying housing to rural residents. Where housing is already in reasonably

good supply and financing of new construction is unnecessary, vouchers would be used to reach low income families who simply cannot afford to pay for the housing that is available. This is a realistic proposal that would provide more flexibility than our current program.

FARM CREDIT

The budget for farm credit adopts provisions of the OBRA legislation, which reduce direct farm ownership and operating loans and authorize subsidized guaranteed loans to replace them. The shift to guaranteed loans was initiated in the Food Security Act of 1985, and for the past several years FmHA has done more farm lending on a guaranteed rather than on a direct basis. It should be noted that the demand for farm credit, in general, is down as farmers and ranchers have tried to avoid debt after experiencing the financial crises of the 1980s.

FmHA is making every effort possible to serve those in need of assistance with loan guarantees. Market placement programs such as "Operation Assist" under which FmHA makes contact with private sector entities and helps borrowers prepare applications for private sector financing have been highly successful for several years and are being even further strengthened. Also, loan guarantees will be encouraged by the interest rate assistance provisions of OBRA. Prior legislation provided for up to a 4 percent interest reduction, 2 percent of which had to be absorbed by the private lender. Under OBRA, FmHA is authorized to pay the full amount of the reduction. This should make the program far more attractive to private lenders and should facilitate both the "graduation" of existing FmHA direct loan borrowers to the guaranteed program and the use of guarantees to serve new borrowers who can meet private sector standards for such financing.

The budget provides $410 million in direct and $2.6 billion in guaranteed farm operating loans, $564 million of which would be subsidized. It also provides for $37 million in direct and $200 million in guaranteed farm ownership loans, $50 million of which would be subsidized. Budget estimates of $2.2 billion in unsubsidized loans reflect projections of use. However, total unsubsidized guaranteed loans under OBRA could be $3.3 billion, if demand is greater than budget estimates.

The budget also provides $25 million for emergency loans and $250 million for FmHA financed sales of inventory property.

Significant progress has been made over the last few years to restructure FmHA's caseload of delinquent borrowers. Most of these borrowers became delinquent because of the open lending policies of the 1970's and the financial crisis conditions of the 1980's. Statutory and administrative actions have been taken to greatly reduce the risk of a reoccurrence.

However, to complete FmHA's reform, the 1992 budget includes proposals to limit the number of years borrowers remain eligible for assistance and to target direct loans to young and beginning farmers.

FARMERS HOME ADMINISTRATION—ADMINISTRATIVE EXPENSES

Credit reform requires that administrative expenses directly related to credit programs be included in program accounts. Because of this requirement FmHA's administrative expense budget for 1992 includes separate requests of $230 million for farm programs, $425 million for rural housing, and $27 million for salaries and expenses to operate the agency's grant program. The total of $682 million is comparable to levels of $568 million used in 1990 and $650 million available in 1991, taking account of the shift in 1992 of the community and business programs to the Rural Development Administration. It also should be noted that FmHA will be required to reduce staffing by 325 staff years to stay within its 1992 budget despite the increase of almost $119 million over 1990.

CROP INSURANCE

Last year's budget proposed that the crop insurance program be replaced with a standing authority for disaster payments. This was proposed as an alternative to having both a highly subsidized crop insurance program and ad hoc disaster assistance legislation almost every year. The crop insurance program was a matter of intense debate during deliberations on the 1990 Farm Bill as well as on the 1991 Agriculture Appropriations Act. The legislative changes made in the FACT Act and directives of the 1991 Agriculture Appropriations Act with respect to actuarial soundness go a long way toward improving the program. The Federal Crop Insurance Corporation (FCIC) is busy making changes to accomplish that purpose and will keep the Congress informed of the progress it is making through special briefings and publication of regulation and contract changes. Further, FCIC and the Agricultural

Stabilization and Conservation Service (ASCS) have been working together to determine whether there are opportunities for ASCS to take a significant role in crop insurance sales, service and loss adjustment, particularly in areas underserved by the private sector delivery system.

Therefore, the 1992 budget for crop insurance provides full funding for the program under current law. However, significant savings can be achieved by reducing the premium subsidy. Current law requires a subsidy of 30 percent on coverage up to 65 percent of normal yield. In practice, the subsidy averages about 25 percent of total premium. Legislation will be proposed to reduce this to an overall 15 percent subsidy. Producer paid premiums would increase from an average of about $6.80 per acre to about $7.80 per acre an increase of about 15 percent. Outlays would be reduced by $77 million in 1992.

The legislative proposal would also allow FCIC to include costs of delivery of crop insurance in the total premium. This change would not, however, affect the amount paid by FCIC for delivery costs. It is designed, instead, to make these costs more visible and to price premiums more consistent with private sector practices.

SOIL AND WATER CONSERVATION

With enactment of the FACT Act, the Department's ability to protect and improve the environment is enhanced. The FACT Act not only strengthens the conservation provisions that were introduced in the Conservation Title of the 1985 Food Security Act but also introduces new provisions that will improve water quality, reduce soil erosion on agricultural lands, protect wetlands, and improve wildlife habitat.

A key provision of the FACT Act is the continuation of the Conservation Reserve Program (CRP), which has enrolled nearly 34 million acres of highly erodible cropland. The average soil loss on these acres has been reduced from nearly 22 tons per acre per year to less than two tons per acre per year. Beginning with the March signup, broader eligibility criteria will be used to focus the program more directly on water quality and other environmental problems. The plan is to enroll another 5.5 million acres in the CRP by 1995, with an initial signup of approximately one-half million acres and subsequent signups of approximately one million acres each year.

The FACT Act also establishes a new Wetlands Reserve Program which authorizes the Department to acquire a perpetual easement on farmed or converted wetlands. In addition, participants will receive both financial and technical assistance to develop and implement a wetlands restoration plan. $124.4 million is requested in the 1992 budget for this program. If this funding is approved the program will be initiated in 1992 with an anticipated enrollment of 150,000 acres leading to an overall enrollment of 600,000 acres by 1995.

The 1992 budget proposal continues the water quality initiative that was begun in 1990 to protect surface and ground water from contamination from agricultural sources. The Congress has continued its support of this important effort which includes targeted research, data collection and analysis on the use of agricultural chemicals, and education, technical and financial assistance in the 90 on-going designated project areas. The Department is confident that by continuing to provide appropriate information and technical assistance, farmers will voluntarily adopt many of the most critical environmentally sensitive management practices that are needed to protect water quality. Success of the initiative will be measured by the level of adoption of these management practices, the extent of changes in the use of production inputs, and changes in crop and livestock production.

The 1992 budget includes $183 million for the Agricultural Conservation Program (ACP) which continues to be an integral part of USDA's overall conservation effort. Through the ACP, the Department provides a nationwide program of cost-sharing to landowners for the installation of annual conservation practices. In 1992, the Department proposes that ACP funds may also be used in initiating a new Water Quality Incentives Program that is authorized by the FACT Act. This program will entail intensive farm level planning specifying the use of fertilizers, other crop nutrients, pesticides, and management practices that are required to achieve water quality goals. ACP funds are also used to provide cost-sharing for water quality projects.

Work on implementing the conservation provisions of the 1985 Food Security Act is progressing well. The additional funding requested for Soil Conservation Service (SCS) technical assistance will ensure that projected workload and deadlines are met. SCS has completed its conservation planning requirements and efforts to install these plans are now underway. The Department is still on schedule to meet the December 31, 1994 deadline for plan installation. To improve SCS productivity

in the field, the budget includes a significant increase to purchase additional hardware and software with the eventual goal of fully automating all SCS field offices.

The Department's budget also contains funds to encourage tree planting on non-Federal lands as part of the President's "America the Beautiful" initiative. This initiative helps to improve the quality of life in both urban and rural areas, reduce energy requirements to heat and cool buildings, address concerns about the buildup of atmospheric carbon dioxide, and demonstrate an American commitment to worldwide forest management. Cost- share funds to carry out the initiative will be administered by the Agricultural Conservation and Stabilization Service, via a transfer from the Forest Service, to assure efficient program implementation. Finally, the initiative complements ongoing tree planting activities under the Department's existing conservation programs, which include the reforestation of Federal lands, the Forestry Incentives Program, and tree planting practices under ACP.

FARM PRICE AND INCOME SUPPORT PROGRAMS

Commodity Credit Corporation (CCC) net outlays were $6.5 billion in 1990, down $4.0 billion from 1989 and down almost 75 percent from the record- setting level of $25.8 billion in 1986. Outlays for 1990 were the lowest since 1981. This continued decline was the result of the market-oriented provisions of the 1985 Food Security Act, decreasing inventories and strong grain prices due to recent droughts and strong efforts to promote exports.

In 1991, net outlays are projected to be $10.8 billion, an increase of $4.4 billion from 1990. The increase for 1991 is due in part to larger crops and a return to favorable weather during the 1990 growing season. For 1992, CCC net outlays, estimated at $11 billion, are up slightly from 1991, but are lower than they would have been without the changes mandated by the FACT Act and by the OBRA.

The FACT Act and OBRA will have significant impacts on both farm policy and on budgetary outlays during the 1991–1995 period. The FACT Act provides the basis for a continuation and expansion of the market-oriented policies of the 1985 Food Security Act. The most significant change resulting from this legislation is planting flexibility, which allows producers to plant specified commodities, other than the specific program crop, on up to 25 percent of the base for that program crop, without suffering a loss in the crop acreage base. This provision permits farmers to produce other crops on a portion of their acreage without sacrificing access to program benefits in the future.

The OBRA was the primary source of budget savings in agricultural programs for 1991–1995. Savings are achieved largely through a 15-percent reduction in acreage eligible to receive deficiency payments—the so-called triple base provision. While the main intent is to achieve reductions in outlays, an equally important effect of the triple base provision is to further enhance the planting flexibility provisions in the FACT Act.

Taken together, these two laws are projected to reduce CCC net outlays for 1992 by about $2 billion, and for 1991–1995 by about $12 billion from outlay levels that would have occurred under a continuation of the 1985 Food Security Act.

The Administration's budget also includes a governmentwide initiative to target Federal resources more closely. The initiative would include restrictions on the eligibility for farm program benefits to individuals with high non-farm earnings. The Administration does not propose to reopen the recently passed Farm Bill or the budget agreement. The proposal is put forward only as a matter of equity.

EXPORT PROGRAMS

Access to foreign markets and the ability to compete internationally are vital for the long-term economic well-being of our farmers, and for this reason an agreement on agricultural trade reform in the Uruguay Round negotiations needs to be concluded. But until that objective is achieved, those programs and activities which bolster our international competitiveness and expand overseas markets for our products will need to be continued. Accordingly, the budget provides a total program level of $8.7 billion for the Department's international activities for 1992, an increase of $128 million above this year's level.

The Export Enhancement Program (EEP) is critical for our trade negotiating strategy and objectives, as it allows us to challenge the unfair subsidizing practices of our competitors and encourages serious negotiations on world agricultural trade reform. In order to achieve these objectives, we need flexibility in our administration of the program, which allows us to respond to changing world market conditions and the subsidizing practices of our competitors. Therefore, we urge Congress not to establish a limitation on EEP programing during fiscal year 1992, which will hamper the program's effectiveness.

For the CCC export credit guarantee programs, the budget provides a total program level of $5.7 billion for 1992. This includes $200 million of credit guarantees which will be made available to promote the export of agricultural products to emerging democracies. Provisions of the FACT Act require that $1.0 billion of credit guarantees be made available to the emerging democracies over a five year period beginning in 1991. The budget anticipates meeting this requirement by making $200 million of guarantees available to these countries during each of these years.

For the Public Law 480 food assistance programs, a total program level of $1.4 billion is proposed, which is expected to provide 5.9 million metric tons of commodity assistance during 1992. The FACT Act has authorized major changes in the Public Law 480 food assistance programs. In the case of Title I concessional sales, responsibility for implementing the program has been assigned to the Secretary of Agriculture and the market development focus of the program has been strengthened.

The commitment to overseas market development activities will continue during 1992 through both the Foreign Market Development Cooperator and Market Promotion Programs administered by the Foreign Agricultural Service. These programs support overseas market promotion activities carried out in conjunction with nonprofit trade and producer associations, as well as private U.S. firms. The budget proposes that funding for 1992 for both programs continue at this year's levels.

FOOD ASSISTANCE PROGRAMS

No one should go hungry in America for lack of means. Accordingly, the Administration's budget requests $30.3 billion for domestic food assistance, an increase of $2.2 billion, over 8 percent above 1991.

The principal goal of our domestic food assistance program is to ensure that all needy individuals, especially needy children, have access to a healthy and nutritious diet.

The foundation for America's food assistance effort is the Food Stamp Program. The Food Stamp Program helps all needy persons, while other nutrition programs supplement food stamps for children, pregnant women, the elderly and other vulnerable groups. More than 60 percent of food stamp recipients are children.

For 1992, the current estimate of Food Stamp Program funding needs, is $19.6 billion, just over 7 percent increase from the 1991 current estimate. This request assumes participation averaging 22.4 million persons monthly in 1992, an increase of about 2.7 percent over 1991. We have also requested an additional $2.5 billion as a contingency fund to be used if made necessary by unanticipated increases in participation or benefits.

The budget also requests just over $1 billion for the Nutrition Assistance Program in Puerto Rico, the maximum amount authorized under the FACT Act.

Helping needy children is also an Administration priority. Investing in children is one of the best ways to ensure America's future. The budget proposes an increase in the Special Supplemental Food Program for Women, Infants and Children (WIC) sufficient to increase average monthly participation by about 200,000 recipients. The $2.6 billion requested for WIt will assure supplemental food for essentially all high-risk pregnant women and infants, and provide for additional expansion among needy children.

The Administration's priority efforts to assist needy children are also reflected in the request for Child Nutrition Programs. The budget request of $6.5 billion will provide nutritious meals, including lunch—and in many places breakfast—to children in school, child care, and summer programs. A legislative proposal will also be submitted that would better target school nutrition funding to increase subsidies and reduce the price of meals for students from families with incomes between 130 and 185 percent of poverty. No change would be made to the free meal category. Also, commodity support would continue unchanged from current law.

The proposed increased subsidy would cut the maximum cost to the child of a reduced price lunch from 40 cents to 15 cents. Breakfast prices would be cut from 30 cents to 10 cents. Not only will lower prices benefit current users of the program, they may also encourage other eligible children to begin using the program. It is expected that 250,000 more children will receive lunches.

Increased subsidies for needy children would be financed by a modest 6 cents decrease in the lunch subsidy provided to children from families with incomes above 185 percent of poverty. Thus, more resources will go to those most in need, no new paperwork will be required from schools or parents, and the budget does not need to be increased. No other changes are requested for Child Nutrition Programs.

The budget request for The Emergency Food Assistance Program (TEFAP) is $147 million, including $120 million for purchasing commodities, the same as for 1990 and 1991, and $27 million for intrastate distribution of commodities. In addition, in

1992 as in 1991, over $100 million in commodities are expected to be made available from Government inventories.

For Federal activity in administering nutrition programs nationwide, the budget requests adequate funds to continue efforts at improving efficiency, enhancing conformity and strengthening program integrity. The budget also proposes several targeted increases, including $0.5 million to develop electronic funds transfer (EBT) systems for food stamp benefits and $4.0 million for a food stamp anti-fraud strike team. A small minority of recipients are selling or bartering their food stamps through unscrupulous retailers who are encouraging food stamp trafficking.

The anti-fraud strike team, in cooperation with USDA's Office of Inspector General, will increase staffing levels to control the trafficking problem. In the meantime, development of a cost effective EBT system as an alternative to food stamps will eliminate many opportunities for trafficking. Also, efforts to reduce Food Stamp Program errors, a problem costing the taxpayer a net of about $500 million annually, will continue. Both trafficking and errors take benefits away from people for whom they were intended and undermine the public support for the program.

For the Human Nutrition Information Service (HNIS), the budget requests an increase from $9.9 million to $12.7 million. The increase will help initiate implementation of the National Nutrition Monitoring and Related Research Act of 1990. Specifically, survey design and methodology research for new surveys sought on food consumption for high-risk populations will be supported. Also, the increase will support HNIS work on USDA's Pesticide Data Initiative.

food safety

Last year, the Department initiated a multi-agency effort to collect and analyze pesticide use and residue data. This effort is intended to estimate the actual pesticide exposure levels in fresh fruits and vegetables. The Congress supported the pesticide data program by appropriating $16.5 million to begin operations. For 1992, $30.8 million is requested to continue expanding this effort.

The data being generated by this initiative will show the actual rates of pesticide use and actual level of residues. The Department has worked closely with EPA to identify the list of the pesticide compounds to be studied.

The Department also proposes to further expand its research into the physical causes and economic consequences of food safety risks. Several ongoing efforts are strengthened to identify residues in meat, poultry, eggs, and grains as well as efforts to communicate improved handling and cooking procedures.

MARKETING AND INSPECTION PROGRAMS

The Department's marketing and inspection programs provide direct benefits to the private sector. Many of these programs are currently funded through user fees. This budget proposes legislation to include the costs for developing product quality standards for the Agricultural Marketing Service and Federal Grain Inspection Service programs in their fees.

The Animal and Plant Health Inspection Service is responsible for protecting U.S. agriculture from animal and plant diseases and pests. APHIS' Agricultural Quarantine Inspection Program is the Nation's frontline defense against the introduction of dangerous agricultural pests and diseases from other countries. The budget reflects implementation of user fees to recover the costs of services regarding USDA inspections of international passengers and conveyances. These fees are called for in the FACT Act and OBRA to safeguard agriculture from the risks caused by commercial trade and travel from foreign countries and are being implemented in 1991.

Progress has been made in a number of pest and disease programs. The Brucellosis program should enable all states to be free of the disease before the end of the decade. Major outbreaks of medfly, Mexican fruit fly, and the oriental fruit fly have been eliminated from California and Florida. The screwworm has been eradicated from Mexico. We expect to complete the eradication of the boll weevil from the current program area in Alabama, Florida, and Georgia in 1992. The agency's biological control programs are proposed at $7.5 million to fund laboratory and field activities such as foreign collection, quarantine screening, rearing, distributing, environmental assessments, and evaluating beneficial organisms against a number of pests.

APHIS' Animal Damage Control operations are being reduced by $4.2 million. APHIS would rely on states and private entities to assume responsibility for many activities involving direct control of wildlife damage. APHIS would maintain a program that focuses on technical assistance and advice.

The Food Safety and Inspection Service received an $8 million supplemental for 1991 to maintain mandatory in-plant inspections and to take over the State of Maryland's inspection program. Maryland terminated cooperative state inspections as of April 1, 1991.

For 1992, FSIS is requesting $24.5 million above the 1991 current estimate. Legislation will also be submitted to require the industry to share 50 percent of the cost for daily inspection provided beyond the first 8-hour shift. Plants that operate beyond their regularly scheduled shift already pay the overtime costs of inspectors. Under current law, Federally-inspected plants that operate regularly scheduled second shifts are required to be provided inspectors without reimbursing the Federal Government.

Rather than proposing that the entire cost of the second shift be borne by the industry, the Administration is proposing to share these costs. It is estimated that this proposal will collect $50 million. Approval of this legislative proposal will help to assure adequate funding for this program in the future when constraints on the Federal budget may impair the ability of the agency to meet industry needs. In addition, the legislation will be designed to help prevent a disruption in the marketing of meat and poultry products by allowing establishments to voluntarily pay for the required inspection when Federal funding is unavailable due to a budgetary sequester.

ECONOMICS AND STATISTICS

Reliable and timely agricultural statistics and economic analysis are essential to meet the challenges of the new decade. These challenges include efforts to enhance the efficiency and competitiveness of agriculture and to address increasingly urgent food safety, environmental and other concerns. Production, marketing and investment decisions of our producers and agricultural businesses need to be based on reliable economic information and intelligence. These needs will grow as we strive to make agricultural production increasingly sensitive to market forces. The Department's economics and statistics programs also provide an important part of the foundation for well informed decisionmaking in the development of public policy. Adequate funding to maintain and strengthen traditional work in this area would constitute a useful investment. In addition, the budget proposes a significant expansion of agricultural chemical use data collection and analysis to support the food safety initiative as well as to strengthen the information base for addressing water quality and pesticide regulation issues. Funding for economic research on global change issues are also proposed. These new thrusts will help fill major gaps in the Government's currently available information for addressing these important issues.

DEPARTMENTAL ACTIVITIES

The 1992 request includes funds for increased ADP review and oversight, systems integration, and modernization of the financial and administrative processes of the Department. With these funds, administrative systems will be streamlined and the sharing of data among USDA agencies will be enhanced.

To prepare for the changing demographics in the labor market, USDA has launched a comprehensive work force diversity program including work force planning. The budget contains resources to continue this long-term effort. The competition for individuals with scientific and professional skills makes it essential that the work force needs of the Department be adequately planned. The Department is working with educational institutions to attract into agriculture, forestry, and the natural resources sciences talented individuals from all segments of American society. These individuals will form a talent pool for future recruitment by the Department. There is a correlation between work force diversity and equitable delivery of USDA programs and services.

The Department has begun to implement the ethics reforms included in Executive Order 12674 and those reforms recently enacted by the Congress. Funds are requested for expansion of the ethics program to increase oversight and provide training for USDA managers and personnel specialists.

Resources are requested to prepare and audit financial statements pursuant to the Chief Financial Officers Act of 1990. Also, increased funding is included for hazardous waste management activities of the Department, including funds for investigative and clean up activities at former Commodity Credit Corporation grain storage sites. The budget also provides for increased work with the Food and Agriculture Councils and for additional public information productions and dissemination. Funding is proposed to provide additional legal services to respond to the growing work load resulting from program changes, more regulatory work, and substantial litigation.

That concludes my statement on the 1992 budget. Making budget decisions is never easy, but if we are to keep the Federal budget under control we must be ready to make the difficult decisions about priorities. We, therefore, urge the Congress to give this budget very serious consideration. We stand ready to work with the Con-

gress over the next several weeks as it carries out its responsibilities under the Budget Agreement. I would be happy to answer any questions you and the other members of the Committee may have.

BIOGRAPHICAL SKETCH

EDWARD MADIGAN

Edward Madigan was confirmed by a 99–0 Senate vote on March 7, 1991, and publicly sworn in as the 24th United States Secretary of Agriculture on March 12, 1991.

Madigan secured a solid reputation in Congress as one of its leading authorities in agriculture. Madigan spent 16 of his 18 years in Congress on the Agriculture Committee, eight as the ranking Republican. He is highly respected by members of both parties as a knowledgeable and prudent lawmaker. Sen. Richard Lugar (R-Ind.) said, "Ed Madigan has done more than almost any other member of Congress to bring about American farm policy responsive to changing world markets." And Sen. Patrick Leahy (D-Vt.), Chairman of the Senate Agriculture Committee, declared, "I know he's a tough but fair and openminded legislator."

Madigan was instrumental in shaping the 1985 and 1990 farm bills, making determined efforts to protect farm income and expand export markets. As Secretary of Agriculture, Madigan will guide the implementation of the 1990 farm bill, the federal law setting agriculture policy for five years. Among Madigan's congressional legislative achievements are stabilizing the Rural Electrification Administration's revolving fund; giving the Farmers Home Administration more flexibility to work with farmers in financial difficulty; and providing incentives for conservation practices in cultivation.

In Congress, he served as a senior member of the Committee on Energy and Commerce and as the ranking Republican member on the Subcommittee on Health and Environment, which has jurisdiction over public health, medicaid and national health insurance, food and drugs, environmental protection, and consumer product safety. He also served on the Subcommittee on Telecommunications and Finance, which has jurisdiction over interstate and foreign information transmissions, including broadcast television, radio, satellite and cable transmissions, in addition to securities and finance law. Madigan also launched legislative drives to serve farmers from these committees. An example: The Clean Air Act Amendments of 1990 included Madigan sponsored provisions that encourage the use of alternative fuels, such as ethanol. These provisions are creating an expanded market of at least 750 million gallons of ethanol annually by 1995.

Madigan was first elected to Congress in 1972, winning re-election and serving successive terms since that year. He was chairman of the Republican Research Committee in 1981–82. Madigan served in the Illinois House of Representatives from 1966 to 1972, winning re-election twice. He was the owner of the Yellow-Lincoln Taxi Company in Illinois.

In 1974, the Lincoln College Alumni Association presented Madigan with their award for Outstanding Achievement in the field of Public Services. In 1975, he was awarded an Honorary Doctor of Humane Letters degree by Lincoln College. James Millikin University awarded Mr. Madigan an Honorary Doctor of Laws degree in 1977, and Illinois Wesleyan University conferred the same honorary degree in 1979.

A native of Illinois, born Jan. 13, 1936, and a graduate of Lincoln College, he is married to the former Evelyn George. They have three daughters, Kimberly, an attorney in Washington; Kellie, a program superintendent with the State Farm Insurance Company in Bloomington; and Mary Elizabeth, a product manager with the Sara Lee Corporation in Chicago. Edward and Evelyn Madigan reside in Falls Church, Virginia.

STATEMENT OF SENATOR KASTEN

Senator BURDICK. Senator Kasten, do you have an opening statement?

Senator KASTEN. Mr. Chairman, first of all I am going to welcome and congratulate my friend. We had a chance to serve together in the House of Representatives a number of years ago, and I am delighted to welcome you here today. I think that your unanimous confirmation by the Senate underlines the great expertise

that you bring to the Department, and as a fellow midwesterner you have got first hand knowledge, I believe, of the many agricultural issues, particularly those agricultural issues that are of concern to our part of the country.

Wisconsin has got more dairy farmers than any State in the Nation, in fact some 34,000 dairy farmers. The price for milk, Mr. Secretary, I know you know and I know you have had some meetings recently, to farmers has dropped from about 25 to 30 percent in less than 6 months. The situation therefore in Wisconsin for dairy farmers is in a critical state, and we have got to work to get the prices up for the farmers.

And I want to express my thanks to you for supporting our legislation, my legislation, which would speed up the deadline for the USDA's milk inventory management report from August 1 to June 15. This report is going to be a key factor, I believe in determining Federal policy on milk prices. I think that the priorities to Wisconsin dairy farmers are first of all getting the prices up and stable, and then finding a cure to the discriminatory milk marketing orders, which I know you are familiar with.

Finally, we are all concerned about GATT negotiations as it relates to section 22, and also the milk inventory management report which I referred to earlier. So I look forward, Mr. Secretary, to working with you. I wish you the best, and I look forward to having an opportunity to ask some questions after the chairman has proceeded with his questions.

Secretary MADIGAN. Thank you.

1990 DISASTER ASSISTANCE

Senator BURDICK. Mr. Secretary, one of the issues you are going to hear a lot about when you travel to North Dakota tomorrow is the drought. We are entering the fourth summer of drought in my State, which began in the fall of 1987. Many farmers held on the first couple of years because they had some grain in their bins and prices were good. Now little is left in their bins, and what grain they do have to sell brings a very low price.

The recently enacted supplemental appropriations bill directed you to provide an estimate and a request for funds in order to fund the 1990 disaster provisions of the 1990 farm bill. I presume that this request would be for emergency funding. When can we expect to receive this request, and how much will be needed?

Secretary MADIGAN. Mr. Chairman, we are looking at what drought assistance would cost if we were to look at all of the areas of the country that have a problem. There are estimates ranging as high as $1.5 billion. I am going at some point to sit down and talk with you and other Members of Congress from the affected areas, and just try to talk through what we might be able to do in response to this situation that affects not only North Dakota but other parts of the country, California specifically. It even impacts on a large area of Texas.

We have a history of responding to problems like this. We do have the tight budget circumstances that I mentioned to you, but when we have in hand something that I would regard as being an accurate representation of what the cost would be, I would be look-

ing forward at that point to visiting with you and others and talking further about it.

1991 DISASTER ASSISTANCE

Senator BURDICK. Your preliminary estimate for funding the 1990 Disaster Assistance Act is $1.5 billion? What about disasters that have occurred so far in 1991? What disasters have we had, where, and what would be your estimate of funding a similar disaster assistance program for 1991, looking at the disasters to date?

Secretary MADIGAN. Mr. Chairman, we have not looked at 1991 at all. We observed that there has been an improvement in the rainfall in some parts of the country, notably in northern California, for example, and in parts of your State. Unfortunately not all parts of your State were helped, but in some parts of your State they have begun to get some moisture. We would hope that this weekend, in fact I have even had a prediction given to me, that this weekend when you and I visit in North Dakota, that it is going to be raining.

Senator BURDICK. Why do you suppose we are going out there?

Secretary MADIGAN. I just thought it would be wonderful if you and I could stand on the porch of a farmhouse out there and watch a downpour. And they tell me that there is a possibility that that will happen, and if it does you and I are going to be two very popular politicians. [Laughter.]

WHEAT PRICES

Senator BURDICK. Let us hope. Mr. Madigan, a second issue we hear about in North Dakota is the price of wheat. For the last 5 months wheat prices have been as low as they have been for the last 18 years. That does not take into account the inflation over those years. Furthermore, the target price is not as helpful as it used to be because it has been declining, and because of the set aside and triple base provisions of this year's farm program.

Mr. Secretary, I know you are concerned about the current situation with regard to wheat farmers. You have indicated your concern at your confirmation hearings and in conversation with me. It is devastating to my State and to wheat farmers all over the country. Have you given some thought to the current situation? What can you do to improve wheat prices? What programs or options are you considering?

Secretary MADIGAN. Mr. Chairman, we have both the Export Enhancement Program, the GSM 102 and 103 programs. We recognize that the two real problem areas in agriculture right now in the United States are dairy and wheat. We have underway the expediting of the study that Senator Kasten referred to earlier on dairy, and we have devoted the majority of our Export Enhancement Program activity and our GSM activity to the wheat situation. Every opportunity that we have to do that, we are doing and we will continue to do.

The wheat problem is largely a problem because there have been record harvests all over the world last year, and the world is awash in wheat. We would hope that our export activities and the higher acreage reduction program for wheat that is in effect for this year

will have a beneficial effect on the wheat prices next year. But beyond the things that I have mentioned, the options are very limited to this Secretary because of the terms of last year's budget agreement.

Senator BURDICK. I will have a few more questions for you, Mr. Secretary. Mr. Kasten.

FAST TRACK AUTHORITY

Senator KASTEN. Mr. Chairman, thank you. Mr. Secretary, I know that you are going to be an important participant in agriculture issues during the Uruguay Round as we continue with these overall negotiations. Last week in the Commerce, Justice, State, and Judiciary Subcommittee I had an opportunity to discuss with Ambassador Hills a number of points, and I would like to, if I can, carry on along the same line. We are going back and forth on whether some of us from agricultural States are going to be supporting the so-called fast track authority and what that might mean in terms of negotiations.

Let me just give you a for instance. If I were to vote, and I am not sure how I am going to vote, in favor of fast track, can you assure us, me, and particularly dairy producers in Wisconsin, that dairy or section 22 would not be used as a bargaining chip for concessions in other areas? In other words, what the concern is, that at the very end they would in effect sell out on certain agricultural programs, particularly the dairy programs, in order to get concessions over here in another area. That might help the United States of America and the agreement might be good for the United States, but it might be very, very bad for Wisconsin dairy farmers.

And one of the things that I would be giving up if I voted for fast track would be the opportunity to make a change in something that would be particularly difficult or bad. What is your view? Will section 22 be used as a bargaining chip for concessions in other areas?

Secretary MADIGAN. Senator Kasten, we must take into account the totality of the statements that have been made about GATT by the administration, both with regard to what would happen in this country after a successful GATT agreement and also with regard to what we would expect to be allowed in other countries, statements have been made to the effect that following a GATT agreement this country and other countries would be allowed to offer nontrade distorting financial help for farmers and ranchers.

Specifically what has been said is we would expect that payments for environmental purposes, payments for societal purposes, and payments for purposes of income stabilization would be allowed both here and abroad. To the extent that that would occur, or might occur, funding has to come from some place. If we were to expect to make payments to somebody in some future years, we would have to save that money somewhere else in the agriculture function.

What that means to me is that any trading has to be done within agriculture, that we cannot trade something in agriculture off for some consideration on airplane subsidies or something like that. If we are to give up an advantage in agriculture, we have to gain an advantage in agriculture, so that we realize better markets; we must have less expenditure in one sector of agriculture, in order for

us to be able to make payments in another place. So I would not be a party to trading off something in agriculture for something in some other industry.

SUBSIDIES

Senator KASTEN. I want to talk a little bit about subsidies, and particularly the disparity of agriculture subsidies between the United States and the European Community. Recent data from the Office of Economic Cooperative Development points out that European common market dairy producers are now subsidized by about 60 percent. What changes are we seeking in dairy programs in the European Community during the GATT negotiations to bring down these subsidies to have a more balanced subsidy level between U.S. and EC dairy producers?

Secretary MADIGAN. One point that is often overlooked, I think, in that discussion is that those EC dairy farmers also have quotas, and they can only produce and sell so much milk. That does not answer your question, but it is a point that I think needs to be made as people think about the whole dairy situation and the comparison between our country and others.

With regard to your specific point, the United States has put on the table a proposal for the reduction of both internal supports and external supports, such as the subsidy activity that they engage in. We have asked that they consider up to a 70-percent reduction in their internal supports and up to a 90-percent reduction in their subsidy activities, phased in over a number of years. That is the position that the United States has before the negotiators. There are other suggestions that have been made and are being made, but that was the proposal of the United States.

I might mention also, if I understand this correctly, that some of the other things that have been suggested by our trading partners in terms of reductions in subsidies are things that we have already accomplished. If we were to agree to some of the ideas that are before the GATT negotiators, we are already there. We have already done what they are suggesting.

FEDERAL MILK MARKETING ORDERS

Senator KASTEN. Mr. Chairman, I just have one further question. I see we have got good attendance this morning. I want to first of all thank the Department, not you as Secretary necessarily, because you are brand new, for working with us in holding national hearings to reform the Minnesota-Wisconsin price series and Federal milk marketing orders. In 1988 a GAO study on milk marketing orders pointed out that the Federal milk marketing order system has benefited producers in some regions of the country at the expense of others. That is what the study said, and specifically, I quote, they went on to say "the justifications for Federal marketing order pricing policies are outdated because dairy market conditions have changed." That is the end of their quotation.

Now, it has been 3 years since that GAO study, and we still have the same discriminatory marketing order policies. Where is the Department right now with regard to developing reforms for milk marketing orders as a result of the hearings that have been taking

place? And is there any possibility that we can develop some methods of reform before the deadline, which is January 1992?

Secretary MADIGAN. If I may, I do not mean this as a criticism of the Congress, because I was part of the Congress when this was done and I was one of the people who was involved in doing it, but we did a dairy study earlier. We spent $1 million on it. And Congress received it and ignored it, and went on and did what it was going to do. There is some risk that that would happen again. In addition to the formal national hearing on marketing orders which should conclude in 1992, we have underway a very comprehensive study, a study that is required as a result of the legislative action taken by you and agreed to by your colleagues. We have agreed to move the final reporting date for that study up from the first of August to the middle of June. That study is comprehensive in the sense that it looks at many facets of the dairy industry.

I would hope that we would have the opportunity to present that comprehensive study and have it discussed with the Congress before the Congress would take some other action on the dairy problem. If the Congress chooses to move ahead in advance of that study, then the possibility of the same thing happening again is very real. And I hope that that would not be the case.

Senator KASTEN. I hope we will be more responsive. We have now got dairy prices at record low levels, and I think because of the crisis you mentioned, the two agricultural commodities you were concerned about were wheat and dairy, and you were worried about the directions, because we have got this crisis situation I think we may have a better chance of getting all the different dairy groups and interests together, the associations, the different geographical groups.

But also I sense a real willingness on the part of Congress to move forward. We got 60 votes for the Leahy-Kasten amendment to the supplemental budget bill, to the supplemental appropriations bill. I think that was an indication, to get 60 votes on an issue as we had, shows that the Congress is also coming together. So I look forward to working with you, and Mr. Chairman, I thank you.

Senator BURDICK. Senator Bond.

Senator BOND. Thank you very much, Mr. Chairman. Mr. Secretary, it is a pleasure to welcome you again. I think at our last conversation you were talking about fighting like a junkyard dog, and that had to do with the strong efforts that you intended to put into the GATT negotiations. And we certainly commend you for that. I want to tell you that it may be simple justice that one who had such a hand in writing the 700-page legislation last year has the opportunity to administer it. But from what we have seen, we appreciate the responsiveness and the great work that you and your Department have put in.

We have been very much interested and worked with your staff on alley cropping, the 50 percent cover crop, and irrigated yield problems. But there are still a number of major areas of concern in addition to the dairy question which my colleague from Wisconsin has hit upon that is of grave concern, and also wheat prices that the chairman has mentioned, which also are of interest to us.

WETLANDS

One thing that continues to be a real concern to all areas of agriculture, and as you well know Missouri is a very diverse State, the one problem that seems to affect farmers of all kinds is wetlands. We made a step toward rationalizing the swampbuster provisions last year, and I want to commend the Soil Conservation Service for educating farmers on the sodbuster and swampbuster provisions. But when you throw in the section 404 permits and provisions of the Clean Water Act, then the issue really becomes clear as mud.

We have had a number of experiences in this area that are frightening. We brought four different agencies, the Corps, the SCS, the EPA, and the Fish and Wildlife Service together to look at a particular problem that had come to our attention. The representatives of those agencies went out in the field with representatives from my office. They looked at the particular area and then gave four different opinions on if it was wetland. They could not even agree among themselves on the direction the farmer was to follow.

You know, at least I think the Government owes the people who are being regulated one answer. If you are doing something wrong, you cannot provide four different remedies which are in some instances conflicting when four Government agencies do not work together. As a side note, one Missouri farmer just told us that a representative of the Corps came out to discuss a 404 permit problem. The Corps representative, being right on top of it, looked over the land and told the farmer that he had a wetland problem because there were standing cattails in his field. The farmer advised the Corps representative that what he was looking at was a field of milo, and not cattails, which suggests that perhaps he did not have the requisite expertise in the area.

Is there something that you can do within the administration to bring together the administrative agencies that have a hand in the Clean Water Program to figure out a way for the Federal Government to speak with one voice? At least give us one answer. It may not be the right answer, but a farmer ought to be able to get one reasoned, informed opinion, and direction from the Federal agencies he has to deal with. Have you run into that problem, and what can be done about it?

Secretary MADIGAN. Just a quick historical background. The 1985 farm bill had specific language on wetlands. The bill was sequentially referred to the merchant marine and fisheries committee, which added report language, and the Fish and Wildlife Service chose to be guided by the report language in the 1985 bill rather than the statutory language that had come from the agriculture committees of the House and Senate.

In the 1990 farm bill you will recall that we redefined what we intended in the 1985 bill, speaking specifically to prior converted wetlands and to wetlands that could be farmed that were not classified as prior converted. That, as far as I am concerned, represents what should be done.

Now, there is a wetlands manual that has recently been going through revision with representatives from the Department of Agriculture, the Corps of Engineers, EPA, and the Fish and Wildlife

Service. Assistant Secretary Jim Mosley from the Department of Agriculture has been our negotiator on the language in the new wetlands manual, and I think he has made very, very substantial progress with these other agencies. I will tell you, frankly, that he has on occasion had to threaten to walk away from the negotiations to accomplish some of the things that we felt as a department were very important to farmers and ranchers in America.

He reports to me that he thinks this product that soon now will be forthcoming is much improved over anything that we have seen in the way of a wetlands manual before. But we also reserve the right as a department to take a look at any legislation that might be considered by the Senate and the House this year, and reserve the right to be supportive of anything that might be in particular proposals that we think would be of further benefit beyond the redefining that has been going on in the wetlands manual revisions.

WETLANDS

Senator BOND. Well, I can tell you that people are somewhat apprehensive about getting a new manual. They would like to see one that is simple and straightforward, but I think the point that you have raised about the conflict in the agencies warrants some real leadership from your Department in trying to get the administration to come up with a coordinated single approach. I think that Congress may have to look to the administration to get its act together to coordinate this on a cabinet level, and come forward with a principal proposal for Congress. Say here are all the goals, these are all the wonderful things and these are all the agencies that have a part in it.

But when the farmer has to get an answer, there ought to be a lead agency, there ought to be one place to go to get that answer. Because that is a very, very frustrating problem for farmers, and one that just drives them nuts all over our State. I hope you will take a strong role in that.

Secretary MADIGAN. Senator, I could not agree with you more. It not only is frustrating, it is frightening. While I was still in the House I was advised at one point that two-thirds of the State of Illinois might be classified as a wetland. That was a very frightening prospect for me that really got my attention. And the whole issue still has my attention. We want you and others to have a look at the new wetlands manual. If there are things that still have not been addressed sufficiently, and Members of the Senate and the House decide to go beyond that and do something legislatively, we certainly will want to work with you.

CONSERVATION COMPLIANCE

Senator BOND. Another major concern that we have, obviously, is with conservation compliance. Again, farmers and SCS have done an excellent job getting their plans ready. Your budget request asks for additional $50 million to put 51 additional staff-years into Missouri, but the needs are for 91 additional staff-years, at least according to the GAO report. We are very much concerned because we have been advised that a lack of technical assistance will not be an excuse for a farmer being out of compliance.

I would like to know where else they can turn and what kind of assistance you can give the farmers who may be in a position where they are caught short because the SCS staff is so badly overworked?

Secretary MADIGAN. You have put your finger on a very serious problem, because they are required to do those things that they have traditionally done throughout the years and now they are also required to be an effective regulator instead of a helper, their traditional role. And they attempt to do that with approximately the same number of people that they have always had because of the budget constraints that we as a government have.

This budget submission represents the best product that could be arrived at earlier in the year by the Department within those budget constraints. But to the extent that members of this committee and your colleagues in the House want to rearrange any of those things to address concerns that you have, we understand that is your prerogative.

Senator BOND. Thanks for the offer. I intend to work on it. Is there any hope for somebody who may be out of compliance because of lack of technical assistance? What do they do?

Secretary MADIGAN. We have promised—I am going to check this with Mr. Dewhurst, who is really the Secretary of Agriculture, I am just the front man here, or with Mr. Parnell. It is my understanding that we have promised to review all of these things where there is a problem on a case-by-case basis. But Jack has been in grade longer than I have, and I defer to you or to Steve if there is anything further that can be added on that.

Mr. PARNELL. I do not know that I could add anything more to it. We have done as best we could, given the restraints of the budget, and we believe that we can actually get the work done. And hopefully it will be done in a timely way and will not lead to any farmers being out of compliance as a result of our shortcomings.

Mr. DEWHURST. The Secretary is correct. We have asked the Soil Conservation Service to try to set up a priority system and look at these things on a case-by-case basis. But you are also absolutely correct that we put all the money and people we could get into that agency with the discretionary budget totals that we had, and it is still clear they have a significant workload problem. We do not have any easy answers to that.

DAIRY ASSESSMENTS

Senator BOND. Mr. Secretary, a question that would be of interest to some of my friends who have significant dairy interests as we do, we understand that if you get a USDA check for any program outside of the forest incentive program you have to have a conservation compliance plan in effect to receive the payment. Now, with respect to dairy assessments where they are getting refunds and not payments, do you have to have a conservation compliance program in effect implemented to be able to get refunds?

Secretary MADIGAN. The Office of General Counsel tells me that under the present law that would be the case. Those refunds are not due until the end of the year, and the opportunity exists in whatever technical corrections bill that is moved through the Congress to address that so we would be able to make those dairy re-

funds notwithstanding the present statutory requirements. We would support that being addressed in the technical corrections bill, and have been indicating that to members who have been calling us about the issue.

EXPORT ENHANCEMENT PROGRAM

Senator BOND. I apologize to the chairman for having taken so long, but I have one last question on trade that is very important. We had report language on the EEP program urging that there be exports of nonfat dry milk, butter, and that emphasis be given to the export of vegetable oils as well as poultry and rice. I understand that although Morocco is eligible for vegetable oil, other proposals for increased Public Law 480 and EEP proposals for Turkey, Mexico, the Soviet Union, China, and the Dominican Republic have not gone anywhere within the administration, while each of these countries continues to purchase vegetable oil from the EC.

Is there anything you can do now that the cap on EEP payments has been removed? And what is likely to happen to the Soviet request for the $1.5 billion additional in credits?

Secretary MADIGAN. First with regard to dairy, we have a separate EEP program for dairy alone. It is called the Dairy Export Incentive Program [DEIP], as opposed to EEP. We are looking for each and every opportunity that we can to use that program to export dairy products. But as you know these programs work when an exporter finds an opportunity in a foreign country for a sale and comes to us and asks us to support it through one of our programs. And to the best of my knowledge, in every instance where there has been an opportunity to do something with dairy, we have done it.

With regard to the vegetable oils in particular we are looking for opportunities to do that as well. And if you have some information about a vegetable oil proposal that has not been acted on, I would very much appreciate it if your staff person would share that with us.

Finally with regard to the Soviet request, that is under review. The credit risk analysis is ongoing within the Department. You will recall that in the 1990 farm bill provisions were inserted that said that the Department must do a credit risk analysis on all counties to which sales are made for which GSM export credit guarantees are issued, which is what the Soviets are asking for. And we have that risk analysis underway within the Foreign Agriculture Service as of this time.

Senator BOND. Thank you, Mr. Secretary. Mr. Chairman, I apologize for taking the length of time that I did, but I appreciate very much those answers.

Senator BURDICK. The next gentleman will be Senator Kerrey.

Senator KERREY. Thank you, Mr. Chairman. Some of the questions that I have are along the same lines as those of Senator Bond, both on wetlands and SCS. Before I get to those, though, Mr. Secretary, I have heard very good reports from Nebraskans on the efforts that Jim Cason has made with FCIC, and I urge you, as I understand that you are, to continue supporting him from above and from below, although I understand that we cannot satisfy

every single demand for changes in the program that is coming from the field.

In other words, we are trying to improve the Crop Insurance Program so that it is self-supporting, and we want to make sure that it makes actuarial sense and so on. I want to move the program in that direction. And my foundational argument is that it is better for the farmer to be making that risk assessment decision rather than having some sort of Federal disaster program enacted. So I keep telling my producers who have questions about the issue to assess the Crop Insurance Program. We have got to make that program work, because we are not going to have an ad hoc disaster program coming in behind it. Thus it is even more important that we support Mr. Cason as he tries to strengthen the program. As I have said, I have heard many good, positive comments about Mr. Cason from people in Nebraska who are both selling and buying insurance.

Second, just to reinforce your efforts, if there is anything we can do to help with the extension of credit to the Soviet Union, I hope you will give us that opportunity. I know there is a great deal of concern about creditworthiness. It does seem to me that the Soviets have a sufficient amount of assets that somehow we ought to be able to use to collateralize the loan. Unfortunately, it seems to me that we tend to focus, particularly in regards to the Soviet Union, on the wrong sorts of issues from time to time.

I believe that providing the credit would go an awful long way toward building confidence between the two peoples. And again, I would just simply ask if there is anything we can do to assist in this effort, I hope you will let us know what we can do.

Secretary MADIGAN. Senator, I understand Senator Dole has the legislative proposal. I talked to him about that yesterday, and I also talked with Senator Leahy about it. I do not know if it has been considered in the Senate yet or not.

Senator KERREY. It is being circulated now for comment.

Secretary MADIGAN. But I would hope that that expression of support from the Senate could be favorably considered and could be promptly considered by the House, because it helps us to know where the Congress is on this issue, particularly with regard to the question of provisions in the 1990 bill relating to risk analysis.

Senator KERREY. My own view of it, by the way, is that those who argue that this simply provides additional political support and props up a regime that is tottering, is that the Soviet people are not terribly proud of the fact that, given the resources they have, that they have to import food. The sale itself, as I said, just gives us an opportunity to build confidence between the two people. It does not in anyway reinforce or build confidence that the current Soviet system is allowing the Soviet people to raise their standard of living.

So the biggest question for me is one of credit, and I know that you are doing an evaluation on that. I have looked at Senator Dole's resolution and I like it, and will to the extent possible urge Members of the House to do the same.

WETLANDS PROGRAM IMPLEMENTATION

Let me follow on some of the wetlands questions Senator Bond was asking, because it seems to me in general what we have here are two separate areas of concern. One is the rules and regulations involving SCS, the conservation plans, the implementation of the plans, and the new wetlands manual. That is one general category of concern. What are the rules and regulations?

The secondary area of concern, which is a greater one for me, is how do we implement the policy. I think some of the questions Senator Bond was asking were directed in that area, in that he was asking questions like is there anyway we can get just one person with full decisionmaking authority. It seems to me it might be worthwhile for us to have some discussions with USDA and with some of the members of both the Senate and the House who are concerned about these questions so we can perhaps discover some ways to head off, I think, some rather serious problems where USDA is going to be doing some things or the Government is going to be doing things that everybody looks at in a commonsense way and says this is impractical. But that is the law, we have to do it.

For example, one of the questions that I have is how do we establish a legitimate method of appeal so that an appeal could be made and producers can feel like they have had their day in court, and we do not end up in a situation where Congress ends up being the appeal agency. I do not feel like I have the capability of actually making a determination myself as to whether or not in each instance somebody has been given fair treatment or not. It seems to me, therefore, that some method of appeal should be in place.

I must say that I have had enough experience with Government to know that there are times when we assign a task to Government and then we finally conclude that Government just cannot properly do the job, and that may be the case with wetlands. I support the objectives of the wetlands policy, but I must say I am rapidly arriving at the point where I just assume that, given the divided authority, maybe it is something the Government just cannot get done. We may not be able to do it, period, in a manner that I consider to be consistent with other values that I have, not the least of which is just a commonsense evaluation of whether or not an irrigation reuse pit is a wetland, whether or not something that Fish and Wildlife has done is too aggressive, whether or not, in fact, there is so much confusion in the system that people do not really know what is going on.

Further, I know I am putting a lot of information out here in one statement, but again I get back to what I said at the start. Given the fact that USDA rightly or wrongly is going to get a lot of the blame for this thing, even though you do not have the authority for a lot of it and you are not responsible for the actions of the Corps and Fish and Wildlife, those of us who represent agriculture interests are going to be looking to USDA to help us. It may be that some sort of meeting with you and Mr. Moseley could help us design a road map of change that would have us, for example, looking at the question of technical assistance. It seems to me that is a very important one, and it may be that we do need to reallocate an increasing amount of money to technical assistance so at least

that is done so we do not find ourselves penalizing somebody because they did not get the technical assistance they needed, at the same time that we are providing more cost-share money for conservation structures and other practices.

Secretary MADIGAN. Starting at the big picture level, the President, as you know, has a policy of "no-net-loss" of wetlands, and that policy is widely embraced in the country. It is a very popular public policy. What is wrong from our perspective is that agriculture is getting all the blame for the loss in wetlands, and we do not think that is the case. We think a lot of the wetlands are being lost to road construction, to shopping center development, to housing developments, to things of that kind. So we have underway a study to try to break out how much of this loss of wetlands is not related to agriculture at all, so that some of this public attention will focus or be focused more properly where it should be.

In the 1990 farm bill, going specifically right down to the farmers level of concern, there was mitigation language put in that bill which the SCS understands they are to work with. There is also language in the bill which allows a farmer with a wet spot in the middle of a field to trade that for a spot somewhere else, to create a wetland spot somewhere else so that his farming practice is more economical and more sensible.

In the new wetlands manual one of the very important things that will be in there, from my perspective, is that a wetland which currently is considered wet, if it is wet 7 days of the year, will be considered wet only if it is 14 days of the year. I think that is a very significant improvement. And the wetlands manual also attempts to deal with defining what is wet because of surface water and what is wet because of a high water table.

Mr. Mosley had a terrible time in the negotiations. I understand he nearly had to walk away from the negotiations just over that particular concern. But that concern was resolved to the satisfaction of the Department of Agriculture. So I think the orderly thing right now would be to look at the new wetlands manual when it is published. If other concerns still exist and need to be addressed, this Department would be happy to sit down with you, with Senator Bond, with the Members of the House, and decide or define what it is we need to do beyond what we have done.

Senator KERREY. Perhaps we should wait until the manual comes out. My concern is connected to what you correctly observed earlier with regard to Fish and Wildlife. Fish and Wildlife took the report language as authority to begin action. They were out there operating very much like how I used to regard the Vietcong. You never saw them, but I kept getting reports of damage. So they used that authority very, very aggressively.

EPA is currently holding hearings and meetings, and what they are doing is making decisions about how to make the process accountable and how to set up an appeal process, and all that sort of thing. They are making decisions that I am not sure they should be making. It seems to me it might be useful to get some of us involved so that we can indeed see what needs to be done, not in an irresponsible fashion, but in a fashion that allows us to try to balance the demands and determine what needs to be done.

For example, I know that I have got to get Nebraska's natural resource districts actively involved at the State level. I know the State responsibility here. I have a department of water resources, I have a games and parks commission in the State, and I have a natural resources commission. They have funding authority, they have regulatory authority. The Department of Environmental Control will be carrying out the EPA mandates. It seems to me that I have some responsibility to try to bring these entities together and determine which activities the State needs to fund and how we need to arrange the resources.

I see a train wreck up ahead if I just wait for the manual to be produced and then comment back on the manual. I am concerned that if I wait that long that I am going to find myself facing people who have had their loans denied, people who have had their agricultural operations impaired sufficiently, people who suffered real damage in the interim.

Secretary MADIGAN. I do not know the timeframe on releasing that, but I think we need to get that back to you today, and we will. We will find out when it is going to come out and let you know that today.

WETLAND MANUAL

Senator KERREY. I just think it would be useful to have some kind of a roundtable discussion involving people who have been elected and are taking the heat every single day as we are would give not only the administration an opportunity to see some things differently, but give us an opportunity to see and consider what Fish and Wildlife is trying to do, what the Corps is trying to do, and what EPA is trying to do. I am indeed very much aware that often Congress gives each one of them conflicting directives, and that indeed I may be part of the problem. It is possible that I also need to learn more in order in the end to be able to make good judgments about what rule changes, in fact, are going to work.

Again, I am rapidly reaching the point where I an about to say this is just something Government cannot do. If it could do it, it would be doing a better job, and right now Government is failing miserably on the wetlands issue. I know you have been working hard and the Department has been working hard, Mr. Mosley has been working hard trying to resolve this, and I know he has been representing agriculture's interests very fairly. Nonetheless, I hate to see us actually fail in the end to do something I think most of us want to do, which is to protect legitimate wetlands in the United States and to support the President's policy of no net loss of wetlands.

Secretary MADIGAN. We will get you the date on when that manual is going to be out, and if that is not soon, if that is not very timely, then I would encourage this subcommittee to bring representatives of those four agencies before it and start talking in this forum about what some of these problems are.

When I went to the Department of Agriculture with Mr. O'Connor, who had been on my committee staff, we talked about what Fish and Wildlife Service had been doing between 1985 and 1990. The Department people were telling us, well, there have to be three things present in order for it to be classified as a wetland, and we

said we understand that. But Fish and Wildlife Service, if they find one of those things, is imputing the other two, and the USDA people wanted to argue with us about that. We said no, we have been out there in the country where this is going on, and this is what they are doing. And this is why we made the changes in language that we made in the 1990 farm bill.

Now, the SCS people should understand that, and we are making sure that they understand what is a farmed wetland, what is a prior converted cropland. Incidentally, on that issue the Corps of Engineers has been very forthcoming. A prior converted cropland, you do not have to have any section 404 permit now to do anything with something that is so classified. And the law of the land in the 1990 farm bill says with regard to a farmed wetland, that if you have been farming it you can continue to farm it. The only thing you cannot do is drain it. If you have not drained it before, you cannot drain it now. Now, that is the law as this Secretary of Agriculture understands it, and expects his SCS people to understand it.

But if that is not what is happening in the country under the new law, then we need to have all of these agencies in, as you have suggested, in a forum like that, and we need to get it straightened out.

Senator KERREY. I appreciate that, Mr. Secretary. Secretary Parnell, I want to wish you the best of luck after May 1. You have done a great service here in Washington. I assume you will get back out in the private sector and work hard to keep Government off your back.

Mr. PARNELL. Thank you for those kind words. I intend to do that.

Secretary MADIGAN. I would just say with regard to Secretary Parnell, Senator, that he has a beautiful ranch in California where he raises Clydesdale horses. He has seven grandchildren out there. If I had that ranch and those seven grandchildren it would take four Clydesdale horses to get me out of there.

Senator BURDICK. The scene now shifts to Mississippi.

Senator COCHRAN. Thank you, Mr. Chairman. This is our first opportunity to welcome Secretary Madigan to the subcommittee, and it is with a great deal of pleasure that I join you and the other members of the committee in wishing him well as he begins his service as Secretary of Agriculture. I have no doubt that he will be a great success. Working with him as I did in the House, as a former Member of the House, for 6 years, and then on farm bill conference committees since i have been in the Senate, I am confident that he has the kind of ability and background experience that will equip him to be one of the best secretaries of agriculture that we have ever had.

RURAL DEVELOPMENT ADMINISTRATION

Mr. Chairman, I have a couple of questions, about some items that will be in this budget. One has to do with the Rural Development Administration. In the 1990 farm bill we included provisions for establishing a new organization which, in effect, would share some of the responsibilities of the Farmers Home Administration. I am wondering how this is really going to work out in practice in terms of responsibilities being identified and defined for making

housing loans, for example, rural water and sewer system loans, and some of the other programs we have come to identify with the Farmers Home Administration. Will these be shifted in some way or another to the Rural Development Administration, or how is that going to work?

Secretary MADIGAN. It is our plan at this point in time to shift only those things that are stipulated in the 1990 farm bill. That is the business and community activities that you mentioned, the water and sewer grants, community facility loans, those kinds of things. The plan is to leave in the Farmers Home Administration the farm loan activity, the rural home activity, single-family home, and multifamily homes. That stays in Farmers Home. But, the activities more related to business development or community development would transfer to the Rural Development Administration as was required by the farm bill language. We do not intend to go beyond that language.

REORGANIZATION

Senator COCHRAN. I understand from talks that I have had with some in the administration that there is no budget request for new funds that would be needed in this reorganization. The hope is that with the same amount of funding we will be able to carry out the functions that are outlined in the farm bill. Is that your understanding of the budget request from the administration?

Secretary MADIGAN. That is the hope. Whether or not that will be the reality remains to be seen. Obviously people who have been involved in one kind of activity in one building can be involved in that same activity in another building. But to the extent that some regional supervisory authority has to be created, whether or not the expenses of that are going to be easily worked into the existing structure, is something that I still have some question in my mind about.

DISTRICT OFFICES

Senator COCHRAN. That concerns me too.

I want to bring to your attention my State's interest in the rural development pilot program which was established in the 1990 barm bill. I'm told we may need to include some additional funds to create those district or regional offices. If we do that, I hope you will take into account the interest in my State of having one of those offices located there. It is an ideal location, I am sure, but we are interested in being considered; maybe we can make some suggestions in the report as we make our way through this budget cycle. Have there been any decisions made, for example, in the regulations that are being developed now as to where these district offices might be located?

Secretary MADIGAN. No; I think that as far as they are at this point is to identify what the regions will be, what states will be in what region. Fortunately your State and mine will not be in the same region.

Senator COCHRAN. That is very reassuring. [Laughter.]

What about Arkansas? Is it in a separate region? And North Dakota? Maybe we can ensure that those States are in different regions.

Secretary MADIGAN. I do not think even the final decision has been made on those geographic lines, but there is a preliminary decision on that, and I would be glad to see that you get a copy of that proposed map.

Senator COCHRAN. That would be helpful. I appreciate that.

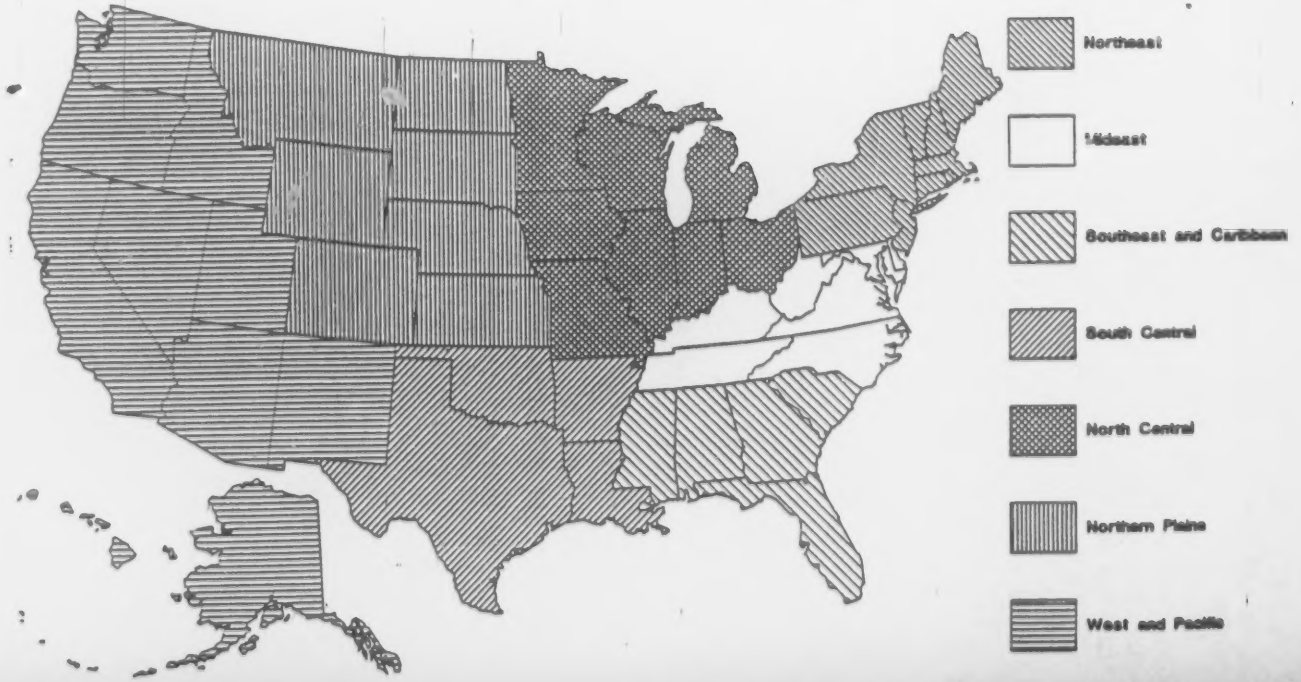
Secretary MADIGAN. But no decisions as to the locations of those offices within those regions have been made.

[The information follows:]

DRAFT

PROPOSAL #12
April 18, 1991

RDA Regions



DISASTER ASSISTANCE PROGRAM

Senator COCHRAN. Another item that came to my attention when I was in Mississippi last week was the fact that we have a lot of farmers who have suffered disasters, very serious disasters, in the 1990 crop season. You were kind enough to be down there with us last weekend. We are hoping that the administration will be helpful and supportive of some disaster assistance consistent with the provisions in the 1990 farm bill.

I'm told we are going to have a request, maybe it is already here, for refugee assistance in the Middle East, particularly in northern Iraq. I am hoping that the administration will consider making a request for some specific funding on an emergency basis for the Disaster Assistance Program. Do you have any word that you could share with us this morning on whether or not we could expect that kind of support for a request?

Secretary MADIGAN. I do not. I can tell you that we are looking, have been looking at all regions of the country. There are problems in the chairman's State, there are problems that I mentioned earlier in California, and States in between California and North Dakota. You have the problem that you alluded to. There is an area of Texas that is severely impacted. So we have a problem that goes across the country, and we have a history as a Government of responding to those problems. We are studying what the outer parameter of doing that is, but we do not know yet.

Senator COCHRAN. Well, we would appreciate your active assistance in helping to ensure that at the highest levels in the administration and the White House they realize that this is a very serious problem. It does need to be addressed, and we hope in a timely fashion. We think the supplemental appropriation vehicle would be a good way to start, and I hope we can get the cooperation of the administration for that.

EXPORT ENHANCEMENT PROGRAM

In connection with a statement made earlier by Senator Bond on the EEP program, the Export Enhancement Program, I wonder whether or not there will be a certain amount of the funds that are available in the EEP program for supporting the sale of processed commodities. It has come to my attention that some countries, particularly the Soviet Union and Eastern European countries where the economies are in such a sad shape, that it is hard for them to convert raw agricultural commodities into something that people can eat and to get them distributed throughout the country.

I am not arguing against a wheat program, or corn, or whatever else may be contemplated, but it seems to me that a certain amount of this program could be processed foods like value-added poultry products, egg products, or other foodstuffs that we have for sale and could be included in those transactions. What is the reaction of the Department to that possibility?

Secretary MADIGAN. We would like to do it, and if the opportunity presents itself, we will do it. We do not go out and create these deals. They are brought to us by people who identify an opportunity. And if anything like that is brought to us we would consider it very quickly and very favorably.

Senator COCHRAN. I appreciate that.

Mr. Chairman, I too want to express and say it gives me some feeling of sadness and regret to acknowledge the fact that Deputy Secretary Jack Parnell is leaving the Department of Agriculture. I want to thank him at this time for his excellent service and his hard work as Deputy Secretary. I especially want to recognize how helpful he has been in managing the USDA budget process for the past 2 years. His assistance also in developing the 1990 farm bill was important. His leadership in the food safety initiatives was truly outstanding.

I think, Mr. Secretary, you have the right to be very proud of your service and your contribution to the work of this administration during your service as Deputy Secretary of Agriculture. I think farmers have been greatly benefited by the work you have done. Those who derive nutrition assistance, those who have come to understand with a greater degree of sensitivity some environmental needs and realities, all are accomplishments that you can be very proud of. I wish you well as you leave the Department.

Mr. PARNELL. Thank you, Senator. Those are very kind words. I appreciate it.

Senator COCHRAN. Thank you, Mr. Chairman.

Senator BURDICK. We will now go to Arkansas.

Senator BUMPERS. Thank you, Mr. Chairman. Welcome, Mr. Secretary. This is the first opportunity we have had to have you here, and we wish you well in your undertaking. Along with the comments of Senator Cochran about Deputy Secretary Parnell leaving, what this Department needs is a little continuity. I hope you will hang around for a while. We hardly get to know these secretaries before they are off running a party or something, and we would like for somebody to get to know the programs and stay here and talk to us about them over a period of time.

Secretary MADIGAN. I appreciate having your continuing support for the job. [Laughter.]

DISASTER RELIEF PROGRAM

Senator BUMPERS. You certainly have it as of right now. Pursuing another item that Senator Cochran touched on is this matter of disaster relief. A story in the April edition of the Delta Farm Press was entitled Disaster Loan Delays Hamstring Borrowers. It set out some problems that they were facing. It said that the Delta region simply cannot get an answer from the Farmers Home Administration whether a loan is going to be approved or not. It goes on to say that as of April 3 not one emergency loan had been approved in Penascot or Dunclan Counties in southeast Missouri. Now, Mr. Secretary, you know where those counties are.

Let me just pursue this, and then I would like for you to comment on it. A group of southern Senators met in Senator Fowler's office about 1 month ago, and some of your people were there. They told us that of the $600 million that we had appropriated for disaster loans, $11 million had been committed. As of April 16, $38 million had been committed. But if you were to ask me what are the farmers calling me most about right now, it is not about the prices or a particular program, it is the fact that they feel they have had

absolutely no relief from the damages of the 1990 flood on the Red River, the Arkansas River, and other weather-related conditions.

Now, the Red River flood was a 100-year flood. I flew over it and I saw pastures as well as row-cropping land that looked like the ocean shore. Destroyed forever, I think. And those people have been absolutely desperate. Most of them certainly qualify for the Disaster Relief Program, cannot get credit elsewhere.

And let me just walk through a case with you that is not on all fours with the 1990 flood. There is a man down in Arkansas County, which is Stuttgart, a big rice growing center, named Jerry Bogard. And I will just briefly summarize what has happened to him, and this goes sort of along with what the GAO report, which I am sure you have memorized by now, says.

In the fall of 1988 he planted 480 acres of oats and 120 acres of wheat. In April 1989 severe freeze almost wiped all of that out. So he started trying to plant soybeans, and he got rained out. And as of August 1989 he was still trying to plant soybeans, and he never did get them in. In the fall the Farmers Home Administration announced their emergency loan program and they determined his losses to be 37.4 percent. Now, that is a qualifying loss because it is over 30 percent. And he met the no-credit-elsewhere test.

So he applied for a $145,000 loan on a 14-year term. He got turned down by the Farmers Home Administration for improper documentation, so he hired a lawyer and filed an appeal. He went before the national appeals staff, and they said that the denial on the grounds of improper documentation was erroneous and that his loan should be approved. That was on July 31, 1990. This all started in the fall of 1988.

So the Farmers Home Administration had an opportunity to challenge the appeals staff decision, and did not. Mr. Bogard They walked into the FmHA office in Arkansas County, and was told by the county supervisor, I know what the decision was, I know what the letter says, but I am here to tell you I do not agree with it, so we are going to start all over again. So he was told to bring every weight ticket for the past 5 years. They would not accept ASCS records. Then they lost his file, and his attorney filed a freedom of information request. They tried to get them to use the ASCS records when they lost it, and apparently they were not willing to do that. And then they lost his file a second time.

The attorney persuaded the Farmers Home Administration to use ASCS records to prove his yield. And once they did that then they lost his record again, a second time. And then his attorney filed a freedom of information request and they located the file, they found it. He got a printout of his proven yield records from the ASCS office in Kansas City, and he and his attorney are now required by the Farmers Home Administration staff to sign for every paper submitted to their office that he sees.

Now they have said, in a letter dated January 1991, a letter from the Farmers Home Administration, that his loss was actually only 22 percent, and therefore under 30 percent, and therefore he does not qualify. So he has appealed that decision. Do you know, has he gotten a decision on it yet?

Now, Mr. Secretary, I know that is not a typical case, but if it is one, it is one too many. You know, those of us who come from

fairly small States, constituent services are very important. The only discipline, the only agency of Government that I have two staffs covering is agriculture. I have one in Arkansas and one here. That is how important it is to me. And my agricultural assistant in Arkansas sent me this chronology of what has happened to him.

Now, this guy is a member of the ASCS county committee and has been nominated to serve on the Farmers Home Administration county committee. He farms land that his grandfather cleared 90 years ago. And his case is still pending. Meanwhile, he and his wife have both had to take outside jobs.

As I said, those of us who do constituent work find this really troubling. I am not one of these people who is going to sit here and brow beat you or even the Farmers Home Administration about that. But those are the kinds of cases that cause us to be extremely concerned when an area like the Red River just devastates the whole southwest part of Arkansas and the northeast part of Texas.

As I say, I flew over it. I have never seen anything like it, and you know I have been Governor and Senator for 20 years, and I have seen tornadoes and floods and everything else. I have never seen anything like this. And here we have only loaned $38 million of the $600 million that Congress put out there.

CONSERVATION RESERVE PROGRAM

That brings me to my next point, Mr. Secretary. It is that these people ought to be allowed to put pasture land in the Conservation Reserve Program. They have not been permitted to do that. Every time the criteria for Conservation Reserve Program comes down it has that cropping history in it. When I say cropping history, I am saying that they are talking about a row-cropping history. I say that these farmers down there, the criteria ought to be changed to pasture land. I am a pasture land farmer, and I consider my farm, raising cattle, just as important as raising cotton or any other commodity for this country. I do not understand why that criteria is in there which deprives these farmers down there of getting some relief while they are at least waiting for loans. Would you comment on that?

Secretary MADIGAN. Well, the purpose of the Conservation Reserve Program in the beginning, Senator, was to enroll highly erodible land. To the extent that pasture land would be highly erodible and would be bid into the program at a bid that the Government would accept, my own view is that it should be eligible. But most pasture land does not meet the standard of being highly erodible land. In fact, I am not familiar with any in my part of the country that would meet that standard.

Recently we have made some changes, or rather the Congress has made some changes, in the Conservation Reserve Program that are aimed at having our agency enroll into the program specific pieces of land that, if taken out of production, would help to enhance or improve water quality at or near community wellheads, at or near surface water supplies, that kind of thing. These are the directions that we get from Congress.

Senator BUMPERS. Wait just a minute, Mr. Secretary, on that point, if I may. We gave you in the 1990 farm bill specific authority to enroll marginal pasture land in the CRP.

Secretary MADIGAN. And if there is pasture land like that that fits the criteria such as protecting a wellhead, protecting a community water supply, doing something like that, it would be eligible to be enrolled. Now, I do not know what has happened in the water quality area of the signup. I do not know if we have that information back yet or not. Do we? We do not have it back yet. But it is possible that there would be some pasture land that fits that water quality protection criteria that would be in the program.

Senator BUMPERS. Obviously the land turned out highly erodible, because it is not there anymore, and it never will be there again unless it is set aside and these farmers have an opportunity to restore it as best they can. But I can tell you a lot of them down there were relying heavily on it, and because of this rule, or at least the way the rule is being interpreted, they have been left with virtually nothing.

Secretary MADIGAN. I would like, if I may go back to what you were saying to me in the beginning, I would like to have that paper that you have got.

Senator BUMPERS. I will give it to you. I will give you the memo my staffers sent me, but——

Secretary MADIGAN. We will call that office today, Senator. We will ask them from the Secretary's office what is going on down there.

Senator BUMPERS. Fine. You will obviously get a slightly different story from the one I just gave you, and I would like for you to share the response you get. So far as I know, these people in these offices are all doing a pretty good job. I am sure they are following the rules as best they can. I am not just jumping on them, but I would like for you to check it and report back to me the other side of the story.

Secretary MADIGAN. We will do that.

COMPOSTING FACILITIES

Senator BUMPERS. Mr. Secretary, one other thing. You know, poultry is a big item in my State. We have developed a new technology down there for disposing of chicken carcasses, a composting system. So they are entitled to cost sharing for building these composting facilities. But for some reason or other the ASCS changed the criteria to say that a farmer who raises chickens had to have been in business for 5 years before he would qualify for cost sharing.

Staff tells me we got report language in the supplemental appropriation asking you to reduce that policy from 5 years to 1 year. I think it is a very good idea, because in a year's time a poultry farmer, or you know, 9 weeks is the typical period now from the time chickens were put in a house until they are taken to the processing plant, so a man or a woman who has a chicken growing operation, if they are in business for 1 year, believe you me, they have had about all the experience they need.

I assume that is what it was based on, that these people ought to have a historical record of growing chickens for 5 years, and we asked them to cut it to 1 year. Our poultry has perhaps not been a big item with you, coming from your State, but I would really like for you to check into that, because you talked about water quality

a while ago. That is what this is all about. This is designed, and the reason the ASCS is participating is to try to improve water quality. And this is certainly a good way to do it.

Secretary MADIGAN. We will check on the status of that and get back to you on that also.

Senator BUMPERS. Thank you. Now, REA of course is in for a bit hit in this year's budget. There are suggestions that the REA has long since performed its original function, and therefore does not need to be nursed along any longer. Mr. Secretary, the last three REA loans in my State were to telephone companies, not to improve service but to provide services to people who did not have a telephone. We are still a rural State, we still have an awful lot of people that do not have telephones. We have some that do not have electricity. Not many, but we have got several that still do not have telephones. And if you leave it to the traditional telephone companies to supply them, they never will have telephone service.

So while these programs perhaps can stand some reduction, to virtually eliminate them just takes those people out of the mainstream. And I can tell you, based on the chairman of this subcommittee's record in the past, we probably will do something differently than what has been recommended.

PEER REVIEW PROCESS

Finally, Mr. Secretary, on peer review, CSRS's peer review system, I want for you to describe for me who picks the people on this peer review program, how long do they serve, and what are the general criteria as to conflicts of interest among those who are doing those peer reviews?

Secretary MADIGAN. I have not appointed any. None have come to me to be appointed. I have appointed a lot of promotion boards, but I have not appointed any peer review groups yet, Senator, so I do not know the criteria. But I will get that for you and get it back to you.

Senator BUMPERS. Is it the Secretary's responsibility to appoint these groups who do the peer review?

Secretary MADIGAN. I do not even know that. Perhaps Mr. Dewhurst does.

Mr. DEWHURST. If I understand your question, the peer review panels are appointed by the Office of Grant and Program Systems within the Department under authority delegated from the Secretary to run the competitive grants and the other competitive research programs that we have. So they do the work on that. I do not think they bring the individual appointments to the Secretary for approval.

Senator BUMPERS. Are those people disqualified from voting or discussing applications for research grants to institutions with which they are affiliated or have been affiliated?

Mr. DEWHURST. I would assume there are some rules designed to prevent conflict of interest, but I will tell you, Senator, I just do not know. I will have to get the rules for you.

Senator BUMPERS. I wish you would check into that and just answer the question for the record for the committee, because we feel we are getting the short end of the stick in my State. We feel these grants are going to the same big institutions all the time. We really

want to continue a great rice research program. As you know, we produce almost 50 percent of all the rice produced in this country. We certainly are the biggest in poultry research and poultry. And we are getting ready, thanks to this subcommittee's help, we are getting ready to build a big system at the University of Arkansas called the Poultry Center of Excellence which we think will be the premier poultry research center in the United States.

But I am just concerned about how that peer review process works. To tell you the truth, I do not think much of it. We do that in the Pentagon, too, and Mr. Secretary, when you were a member of the House you probably heard that discussed from time to time about who got all the military research grants. It was always the same institutions, MIT, Stanford, Harvard, all those schools. So if you will just answer that question for the record I will appreciate it very much.

Mr. Chairman, I have a number of other questions that I will submit for the record. Mr. Secretary, thank you very much. I look forward to working with you.

Secretary MADIGAN. Thank you.

Senator BURDICK. Senator Lautenberg.

Senator LAUTENBERG. Thank you very much, Mr. Chairman, and Senator Harkin, my colleagues on this subcommittee, because they are not used to seeing a fellow from New Jersey coming to the agriculture subcommittee hearings. One of the reasons that I am here is that whatever imported produce we can get, in addition to the small amount of farming that we have, is very important. One of the ways that we are assured of good quality produce and the latest in technology is to have the Animal Plant Health Inspection Service [APHIS] available to us. It is now located in Hoboken, NJ, and it is contemplated by USDA, apparently, to move it to the Research Triangle in North Carolina.

Now, as you know, our area is surrounded by excellent ports, transport facilities, and airports. The center is strategically located to assist these ports in fumigating and, if necessary, quarantining food and plant products. As one of those who, Mr. Secretary, put you over the top when your confirmation came across——

Secretary MADIGAN. I appreciate your continuing support.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Senator LAUTENBERG. We have heard good things about you, and I hope we are not going to change that today. I have the following questions. One is, APHIS makes the claim that the Raleigh-Durham, NC, area offers the academic and scientific environment that they need to do their research. And I am sure you are aware of the many fine academic institutions that we have in and around New Jersey, including a land grant college, Cook College, associated with our State university of Rutgers. And we have Princeton and the New York City institutions. Could it be that New Jersey lacks the academic and scientific environment that APHIS needs?

Secretary MADIGAN. Senator, what I understand is going on here is that there are two activities ongoing at this facility in Hoboken, and one is the inspection activity that you refer to, and the other is the research activity which is conducted in an older USDA-owned building that the civic development authority is asking for.

It is my understanding that the property around that building, which previously belonged to USDA, was given to the civic development authority. They would now like to have our building as well.

We have indicated that we would give them the building, I think they want the real estate that it is on rather than the building, and that we would transfer the research people to the research triangle, and we would transfer the inspection people to another location in New Jersey, to another USDA port affiliated location. What we are talking about is the movement of nine people from New Jersey to North Carolina. We are not talking about moving the inspection people, only the research people.

Senator LAUTENBERG. Can you help me and tell me what the size of the organization is that controls the inspection facilities? How many people are involved with that?

Secretary MADIGAN. I do not know that.

Senator LAUTENBERG. Is that the larger of the facilities in a significant way, do you know? We would like to keep it all, Mr. Secretary, as you know, because they have the unique expertise and knowledge needed by the ports and related businesses. And again, in a State like ours, the most densely populated State in the Union, the movement of material from the port to the consumer ought to be done as expeditiously as possible. Also, the research people provide a service and provide knowledge and information that we do not normally have available to us. Once the laboratory moves a distance like that, it reduces the interact time that people in the port facilities would have.

I would hope that with a small force like that, that we can continue to keep these two facilities side by side. Have you looked for other locations in New Jersey to maintain the research group?

Secretary MADIGAN. What we are doing, I would repeat to you, we are doing in response to a request from the civic development authority in New Jersey.

They want this property, and we are willing to give them this property. Then, the point is, what do we do with the people who are there—the inspection people? We can move to another inspection facility in New Jersey, and we have done that, or we are going to do that.

The research people, we looked for a place to move them where we already have research activity ongoing. That happens to be in North Carolina. If you wish me to look and see if there is some USDA research facility in New Jersey where we can move these people to, I will be glad to look at that.

Senator LAUTENBERG. I would appreciate that, because these are skills that are acquired over a period of time. These are jobs that are precious to us, the small number notwithstanding. The fact is that they provide an immediacy of information and process that is very helpful to us.

So at this juncture you have not looked for another location in New Jersey for the research people, but we have a commitment that you will take a look at it. Could I ask that you hold off on the proposed move until some time later this year, not make the move until we and you have had a chance to investigate the possibility of places in the vicinity where this research group might be located?

Secretary MADIGAN. I do hope that you will understand that we would be looking for a USDA facility, and we will be glad to look in New Jersey and consult with you further before we take any action.

Senator LAUTENBERG. Why? Are the USDA facilities interconnected disciplines?

Secretary MADIGAN. No; there is the overhead associated with them. We are in our own building there. We are giving up the building.

Senator LAUTENBERG. I understand.

Secretary MADIGAN. If we move USDA people out of a USDA building, we look for another USDA building to move them into where the same type of activity is going on, rather than to move them into something that is not in any way associated with what they are doing.

I sense you are suggesting to me that there may be some location in New Jersey that is well-suited to what they are doing, and for which we would now have to assume significant overhead and maintenance responsibility. We will be glad to go through that and look and see if that is the case.

Senator LAUTENBERG. And we will help you look, Mr. Secretary. Thanks very much. Thanks, Mr. Chairman, and thank you very much to my colleagues for their indulgence.

Senator BURDICK. Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman. Mr. Secretary, it is a delight to see you. This is the first occasion I have had in a forum like this to congratulate you on your selection and the overwhelming support for you as Secretary of Agriculture.

I was necessarily absent when you were before the Agriculture Committee in the Senate confirmation hearing, but I do want to take again this opportunity publicly to congratulate you and wish you well, and to state for the record that all the years that I worked with you on the House Agriculture Committee, and when I came over here and worked with you, from the other side over here, I always found you to be a very pleasant individual, someone that, while we might not have seen eye-to-eye on things was willing to make things work and move ahead on legislation.

I look forward to working with you in that kind of spirit in the future. I am delighted that we have someone from Agriculture now in the Secretary's position. I am kind of partial to that. I guess the last one before you was Bergland, I guess. I think that is a step in the right direction, and the first few weeks that you have been down there I think you have set a good course for the Department of Agriculture.

Secretary MADIGAN. I appreciate your saying that.

Senator HARKIN. I thank you for that.

ALTERNATIVE AGRICULTURAL PRODUCTS CENTER

I just have a couple of things, Mr. Secretary, that I would like to go over. One involves something that you played a very crucial role in when you were on the House side. If I could lay claim to being, perhaps, part of the father on this side, you were certainly the father on the House side, and that is the National Agricultural Product Development Act which you had championed in the House,

to set up the separate institute to conduct applied research and development of new nonfood and nonfeed products.

We worked it out on this side. I had an initial bill and I think Conrad, Senator Bond was very active on this side. Senator Cochran I know was a cosponsor of it. So it had good bipartisan support. We had to work out, obviously, different approaches and things like that and work with the House, but it came through all right on the committee on which you were on, the conference committee, and got it all worked out.

So we are moving ahead, and I share with you the belief that we can greatly expand our markets by developing new products for existing agricultural materials, modifying plants to create new useful materials. I keep thinking this is one of the best ways we can go to improve farm profits in the future.

Now, we shaped this into this act that was made part of the farm bill last year, and I am hopeful that this Appropriations Committee will be able to fund AARC, I guess it is now called, at a significant level next year. I think it is important for the Department to move aggressively forward with the necessary planning in this fiscal year so funding can be officially used next fiscal year.

I guess if anything, I just had a question about, are you hopefully focusing on this and getting the Department to move ahead with the planning very aggressively so that we can hopefully get some funding into that and get it started next year? If you could just respond to that. What is happening on that, in terms of the planning and getting this—I guess it is called Alternative Agricultural Research and Commercialization Act?

Secretary MADIGAN. Senator, you are absolutely correct that you were a leader.

Senator HARKIN. I am sorry—Alternative Ag Products Center is what it is now called.

Secretary MADIGAN. You were leader on the Senate side in getting the language incorporated in the conference report on this issue, and I was involved on the House side.

As I said earlier in my testimony, I was not involved in the preparation of this budget. This budget was prepared by the people who were in the administration at that time, and it reflects the priorities that they have had within the constraints of the overall budget agreement of last fall. This is an area where I have particular interest.

There was a dispute within the administration about how far Government should go in this type of research and development activity. My own view is that many of the advantages that exist in agriculture today exist because of Government research and development activity in years gone by, not only with regard to chemical compounds that are used and fertilizer compounds that are used, but farming techniques, even down to the design, in some cases, of farm equipment.

So I would hope that in the preparation of the next budget that comes up that I would have the chance to be involved and would have the chance to speak to some of the priorities that you and I share. In the meantime, it is up to all of you as to how you dispose of this particular budget, but we at the Department are committed

to trying to work things out within the constraints of the budget agreement of last fall.

Senator HARKIN. Basically, we are focusing on just the planning right now for this year.

The one thing I think was incorporated in both your bill in the House and the one here was a desire for this entity to be an independent entity. That was in the House bill and was in the Senate bill, and of course it was kept in conference that it would be an independent entity, so I hope the Department is fully considering that desire in the early planning stages and I hope that, Mr. Secretary, you will personally keep an eye on the planning process.

As I understand it, ARS is now doing the planning, and while I have a great deal of respect for ARS, again this is an entity we are trying to get separate and apart, and with a different focus, perhaps, than what ARS has had in the past, and again I have more than a small amount of concern about how that planning is going to be done, but I would like to see us do something in terms of some minimal amount of funding next year to get this thing going.

I would hate to have to wait a whole other cycle. It was in the farm bill, so if we could get something going next year at least, small though it may be, but at least get it on the road next year and not wait a whole other year. I would sure appreciate it. If there are any problems in that and I can help in any way, let me know. I do not know what that would be, but I would hope that the planning process—something might happen before we put the final touches on this bill this summer that we might get something in there to move it along next year.

Secretary MADIGAN. I am going to have somebody come up and talk to your staff person about that.

Senator HARKIN. I would appreciate that. Thank you, Mr. Secretary.

FAST TRACK

The other thing I want to bring up is—well, it really is not something we can deal with here in agriculture appropriations, but I hope I can use the forum to ask you this. I have not yet decided how to vote on this fast track stuff, but I keep hearing that the proposal is going to be that the Europeans and the United States cut their supports for agriculture by the same percentage. If that is the case, then I in no way can support it. Obviously, that would leave us in the same situation we are in today if you cut it by the same percentage, and I just wonder, can you state one way or the other at this point whether or not this kind of agreement would be acceptable to the administration or not?

Secretary MADIGAN. That is not the U.S. position. The U.S. position is for substantial cuts in border protection, internal trade-distorting subsidies, and the quantity of subsidized exports, as well as for more effective GATT rules and disciplines. What you have described is a position advanced by a gentleman named Helstrom, who, to get the negotiations started again, or get the talks started again, made that suggestion and the United States agreed to it only as a point from which we would negotiate, and certainly not as a concept that we would accept.

The point is, that will not be the final result. But if it were the final result, it would mean that the Europeans, who are spending approximately $12 billion a year on agriculture export subsidies would have to reduce them by $6 billion, if they were required to reduce those subsidies by 50 percent.

We spend roughly $1 billion on that type of activity. If we were to reduce 50 percent, we would be reducing by $500 million, so the reduction by them would obviously be much greater than the reduction by us.

Because of the size of our farming operations, and because of the technical and technological advantages that we enjoy that result in a lower cost of production than that enjoyed by European farmers, we would probably gain significant markets because they would be reducing so much more than we would. But we are not buying into that because we are asking for quantitative reductions as well as monetary reductions. That is the U.S. position at this point, and that is the position that I hope the United States will continue to maintain.

Senator HARKIN. I have heard some suggestions that perhaps because the Europeans are so intent—let us face it, it is a political problem with them, too, and is part of their social policy—that we might agree to take the subsidies and put them into a different form, like put it into conservation. It helps if you put it in conservation. It helps us, it helps them, too. I just wonder if there is any thought being given to that, that they still keep the income support to the farmers but they target it in a different direction in terms of conservation?

Secretary MADIGAN. The U.S. position is that we would expect that countries would continue to make agriculture expenditures for environmental purposes, for sociological purposes, and for purposes of income stabilization, so long as it is not done in a way that is market-distorting.

Senator HARKIN. I would hope more emphasis could be put on the conservation. I think that would be more saleable to our farmers, too.

BEEF INSPECTION

Last, on beef inspection, on Monday the Food Safety and Inspection Service announced it was going ahead with its plans to implement the SIS, the streamlined inspection system for cattle, with final notice to be effective May 1, with implementation on June 1, according to the Federal Register notice.

As I understand it, the system allows a significant cutback in the role of Federal meat inspectors, with packing company personnel taking over many of the responsibilities. The National Academy of Sciences found numerous significant deficiencies in the system as it is being implemented at the pilot plants. The members of this committee received a letter from 21 Federal inspectors at a plant under the SIS pilot program, and this letter raises serious doubts about the ability of the SIS system to assure the quality and safety of beef.

Mr. Secretary, several years ago, when I was still on the House side—in fact in the face of opposition of some of my political supporters, I supported going to the less than continuous inspection on

secondary processing, you know, where you can it and slice it and that kind of thing, going to less than continuous inspection, and I thought that was the proper way to go at that time, and I think that has worked well.

At the time, people were warning me—they would say that is the camel's nose under the tent. The next thing they will want to do is get rid of inspection at the point of slaughter, and I said, that will never happen. Well, now it looks like it may be happening, and I am concerned about it.

Consumers are already reducing their red meat consumption. The last thing we need is an inspection system that leads consumers to doubt the wholesomeness of beef, and all we will need is one story one place at one plant where they put the system in and they do not have a Federal inspector and something happens there and consumers are going to go off the wall on red meat.

So I have some serious questions about this, and not only that, the rapidity here—May 1 the final rule will be effective, implementation on June 1, and I am not certain that there is going to be any kind of congressional involvement in this, and I just want to know will there be any consultations with Congress, and what process is USDA willing to commit to regarding congressional involvement in this process?

Secretary MADIGAN. Senator, this comes as a surprise to me and a surprise to the other two people at this table, because we are not aware of any announcement from USDA that we were going ahead with this.

We are aware that we are in the process of preparing a formal response to the report from the National Academy of Sciences, and people from the Department have made pledges to visit with the House and Senate about this process as it goes forward, but any announcement that we were implementing this comes as a surprise to all of the people from the Department who are present here today.

Senator HARKIN. Well, I have got this piece of paper here, Monday, April 22, Federal Register, Department of Agriculture cattle post mortem inspection procedure, staffing procedures, FSIS is adopting the proposed rule with several minor changes. It has got the timetable listed here, Ed. It says final action 5/1/91, effective 6/1/91, comment period—oh, comment period ends. No; it says final.

Secretary MADIGAN. The gentleman on my right is the deputy, as you know, and very much involved in the cattle business, and this is coming as a surprise to both of us. We would like to have the page number. We will certainly get back to you.

Senator HARKIN. Did he not just give you a copy of it there? Did you get a copy of that?

Mr. DEWHURST. Senator, yes. What this document is is a copy of a page from the so-called regulatory program of the U.S. Government which is published in the Federal Register, which is a listing of regulations that the Government will propose to pursue, but it is not the regulations themselves.

Senator HARKIN. I understand that, but it says the final proposal, 6/1/90.

Mr. DEWHURST. I have just been reading those dates, and frankly I am surprised by those dates, so it is just something we are going to have to find out about, because we thought we had a clear understanding of what was happening here, and obviously we do not.

Senator HARKIN. I would appreciate your looking into it to find out.

Secretary MADIGAN. This is the very first time I have been surprised by the 113,000 people—the very first time today. [Laughter.]

Senator HARKIN. I would appreciate you looking into it. This is awful fast. We would like to have some input, I am sure, at the congressional level to talk about this thing.

Secretary MADIGAN. We want you to have some input. I have some questions about this myself.

Senator HARKIN. Thank you, Mr. Secretary.

Secretary MADIGAN. Thank you. Thank you for calling that to our attention.

Senator BURDICK. Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman. Mr. Secretary, I join my colleagues in welcoming you here and congratulate you in taking on this new, very important position. I welcome you and your colleagues.

MILK PRICING

As I say, I want to discuss with you for a few moments the issue of milk pricing. I know that Senator Kasten had asked some questions earlier today and I could not be present because I was in my own State earlier this morning.

The milk pricing issues are of enormous importance to Pennsylvania. Many people do not realize that we have more people living in the rural part of Pennsylvania than in the rural part of any other State in the Union, at least as represented to me—some 2.5 million people—and I have had a very large stream of concern and complaints registered by Pennsylvania dairy farmers about milk pricing.

There is a provision in the 1990 legislation requiring that your Department submit to the Congress this summer a report and recommendations on various milk industry management programs. I would like to get your thinking on that this morning to the extent you are in a position to discuss it.

Secretary MADIGAN. Senator, that requirement in the 1990 farm bill calls for a report to be made by us to you by August 1. Because of the immediacy of the dairy problem, we have agreed to move that report up to June 15, to be able to bring it to your attention by June 15 so that the Congress has a 6- or 7-week period of time to consider that before the start of the August congressional recess.

I am advised by Mr. Raul, the general counsel of the Department of Agriculture, that it is improper for me to discuss any particular management plan, to express any preference for or against any plan, because I could subsequently be sued for having in some way prejudiced the study.

Now, I am so junior in grade in this job that I am not yet ignoring the advice that I get from my attorneys. I am still paying very close attention to them, so I would be glad to discuss the dairy situ-

ation, but I would like to refrain from discussing in a positive or negative way a particular solution to it.

MILK PRODUCTION

Senator SPECTER. Without agreeing with your lawyer, I think there are some useful subjects that we can discuss without asking you to cross any lines on coming to any conclusions about any particular kind of a program.

The Pennsylvania milk producers are very much concerned about the enormous supplies which come from—I hate to say this in Senator Kasten's absence—from Wisconsin, perhaps even from Illinois, and perhaps you can give some indication as to whether it is feasible to address some sort of a regional answer to this issue which would not leave, say, Pennsylvania subject to the enormous production of, say, Wisconsin and Minnesota, et cetera.

Secretary MADIGAN. Well, I will say first of all the price of milk, as I understand it, is based upon something called the MW price, which is the Minnesota-Wisconsin price. And then the price fluctuates depending upon the distance from Minnesota and Wisconsin that the milk is produced. Whether or not that is a fair way of pricing milk is one thing that is under study in another special study.

There is also, with regard to the manufacture of cheese, a system where the price of milk is based on the price of milk used in manufacturing at one place in Wisconsin. Whether or not that is the way that should be done is also being considered in the national hearing on milk marketing orders. Whether or not the present system of marketing orders should be continued in its current form is the subject of formal hearings.

There is to the best of my knowledge practically no element of the system that has been built up over the years that is not under study and review in either the study or the marketing order hearings or other reviews that we have under way at the Department at this time.

Senator SPECTER. Well, then perhaps as much as can be said at the moment is to urge you, which I would conclude you would do in any event, to take a very close look at the very heavy impact on a State like Pennsylvania and other States which are out of that heavy production area to try and project some greater fairness into this very serious problem. Implicit in your answer already is that you are well aware of that and will undertake to do that. Correct?

Secretary MADIGAN. Let me back up and say that during the period of time that I served in the Congress, I was involved in the production of five farm bills. Everyone of them had a dairy title. Each time it was controversial. Each time it was the final solution to the dairy problem.

Separate from farm bills, we did a dairy diversion program one year. We did a whole herd dairy buyout program. We have not solved the problem yet. I would hope that this year we take a real stab at trying to address the regional disparity of interest that exists with regard to dairy and the differences of opinion that exist between the dairy industry and the cattle industry, for example, which I think are very legitimate differences of opinion.

I would hope that we could bring enough people together representing all of those points of view—that we could do something—

that I could go and represent to the President of the United States as being something that is really meaningful and not something that will just cause us to have to come back and visit this again a year from now or 2 years from now, as we have been doing all the years that I have been in Congress.

Senator SPECTER. Well, Mr. Secretary, I appreciate that statement. It is very thoughtful. And I and others will anxiously await your report to see if there is any answer on this dairy management issue. We would all like to see the market solve the problem, but it has not done so up until the present time. I have not been through as many farm bills as you have but I've been through a couple. I have seen the terrible trauma and terrible anguish that the farmers are sustaining in the field of milk production.

With respect to the other side—the demand side, consumption side—I had written to Secretary Yeutter back on December 18, asking him among other items—this was following a meeting which I had just the day before with a group of dairy farmers in northeastern Pennsylvania, north of Scranton, and I had promptly taken up the issue with Secretary Yeutter.

I think it is important to comment on what really happens out there beyond these calm, icy hearing rooms in the Dirksen Building. When you go to northeastern Pennsylvania and see more than 100 farmers just madder than heck, really going through terrible pain and anguish, and looking for some help from the Federal Government and finding a farm bill which leaves them with a lot to be desired.

EXTEND CREDIT TO SOVIET UNION

I wrote to him just the day after expressing some of their concerns. I'm reminded of that meeting when I look at the dates here. In my letter, I asked the Secretary about the efforts to extend credit to the Soviet Union to enable the Soviet Union to purchase United States agricultural commodities. It had been reported that Soviet President Gorbachev wanted to buy as much as 1 million tons of milk a month to ease food shortages in the Soviet Union.

That brings up a couple of questions. One is the extent to which the United States ought to advance credits to the Soviet Union at a time when they continue to modernize their missile system, whether we ought to be providing them with both, letting them have both guns and milk—guns and butter.

I would be interested in your comments about what you think ought to be our policy in that respect and whether Soviet purchases might take some significant part of the oversupply of U.S. milk for purchase.

Secretary MADIGAN. Well, I have been through periods of time when we were selling things to the Soviets and periods of time when we were embargoing shipments of food to the Soviet Union. In both periods of time the food got to the Soviet Union. What happened when we were embargoing it is that we sold it to people in the Netherlands and in Germany, France, and places like that. And then they in turn sold it to the Soviet Union at substantial markups.

But because the embargo was in place, the U.S. price was depressed and so the American farmers did not make the money off

the sales. The middle men in Europe who transshipped our embargoed product made all the money.

And I think when we talk about relationships between countries that it is wise to try to keep the commercial relationships at some distance from the foreign policy relationships, because it is very difficult once something is on the high seas to control its final destination.

With regard as to whether or not we should be making the GSM credit guarantees available in connection with sales to the Soviet Union right now there is a provision in the 1990 farm bill that says any GSM export credit guarantees should not be made available in connection with sales to any country which does not have a favorable credit risk analysis. That is a new specific provision that did not apply to anything that we did in connection with our commercial export credit programs prior to the date of enactment of this bill. So we have to do that. We have to do it with regard to a pending Soviet request or a request from anyone else. And that process of analyzing the risk of extending further credit in connection with sales to the Soviets beyond the $1 billion that we have already extended this year, that process of review is under way now in the Foreign Agriculture Service within USDA.

Senator SPECTER. Aside from the credit risk issue, Mr. Secretary, what is your view on extending credits to the Soviet Union so that they can use their cash or other resources for missile improvement and still have the advantage of dairy products on credit?

Secretary MADIGAN. Well, I do not know if they are using their cash for missile improvements, Senator. I do not even know if they have any cash. I have spent several hours this past week visiting with people from the Soviet Republics who have told me that they are withholding the revenues that they normally turned over to the central government, because they are negotiating with the central government about what the future amount of those revenues should be. That is one of the things that we have to consider when we consider this credit risk analysis.

So I have read where people say that the Soviets are continuing to spend so much money on military things, and then I have read stories about Soviet soldiers living in near depravity within the Soviet Union.

Senator SPECTER. They are probably both correct.

Secretary MADIGAN. I do not know. I do not know.

Senator SPECTER. I do not know either, but I do know that Secretary Cheney and General Powell testified before the Department of Defense Subcommittee of this Appropriations Committee that they are spending money on improving their missile system. I emphasize that I do not know, but that is the testimony that I hear. We heard testimony from General Powell not too long ago in the morning and came into this room in the afternoon to hear Treasury Secretary Brady urge us to extend credits to the Soviet Union through the World Bank. And these are difficult issues. And I think we just have to consider them, and I know that you have a long record as a public official considering these issues.

And it is worth a few moments of our discussion here this morning, because we do have to focus on it. And I am not sure of what the answer is. As a Pennsylvania Senator where my constituents

have large supplies of milk, I would like to see the milk sold. As a U.S. Senator, very much concerned about the Soviet arms build-up and what is represented by General Powell on their strategic improvements. I am not sure that we ought to be extending the credits to be giving them an opportunity to have both guns and butter. But I think it is something we have to focus on.

Secretary MADIGAN. Well, I think another thing to always keep in mind is the extent to which anyone at the ultimate head of a government actually is able to control all of the various elements of that government.

And I would remind you that at the time of the Cuban missile crisis, which was into the Kennedy presidency, President Kennedy discovered that the order that he had issued to the U.S. military for the removal of missiles from Turkey had never been carried out, and that part of the final negotiation was that they took their missiles back out of Cuba and that the President's order to remove the missiles from Turkey was finally obeyed by the United States military.

Senator SPECTER. Perhaps that is why the electorate has turned to so many Republican Presidents.

Secretary MADIGAN. Maybe Senator Burdick would like to comment on that.

Senator BURDICK. Obviously no comment.

Senator SPECTER. Well, I know what you mean. You already commented about your own 113,000 employees. President Bush has those and more besides.

I am going to submit quite a number of questions for the record, Mr. Secretary, because the hour is growing late. When I have asked you questions on the milk inventory management program, I would appreciate if you would defer answering those questions until June 15 so that—nobody ever objects to deferring an answer, but at that time the questions will become relevant. They are relevant now. The answers may be privileged on your side, if your lawyer is correct. I do not expect you to follow my advice in preference to his advice.

I would ask you just one concluding question or raise one concluding issue, and that is with the tremendous incidence of world hunger that we find everywhere. We have the issue of helping the Kurds which we currently are trying to do. Then the issue arises as to what is happening with the Dalai Lama, and now we see that in Sudan the problem is represented to be so much more serious than with the Kurds so that every time the United States takes a stand in trying to help people, we are subject to implicit criticism that we are not helping other people.

It is an endless proposition, but we are a great and generous country. And we do have tremendous supplies of farm products. Of course, we cannot give them all away. We have to be paid in some fashion, but I just wanted to raise the issue as to whether we might not find some way to use the enormous warehouses of foods which we have—dairy products are only one of the items. We need to explore some way perhaps that somebody else could help us bear the cost. Goodness knows, the Japanese and the Germans and so many others have not begun to bear any portion of their fair share. But when we were in the midst of all of these GATT talks—and

I have great reservations about the fast track, et cetera—there might be some point where we are talking about European protectionism for their agricultural products and fairness that we could not turn some attention to devising a system where we utilize our vast supplies of food. That might be an appropriate item on the agenda as part of the mix.

Secretary MADIGAN. I think it is an excellent idea. And I understand as a matter of fact that it is even in the Old Testament and it is referred to as an ever-present granary for access, if you will, by the people who need it.

Senator SPECTER. Well, I think that is a good note to end on. I grew up in the State of Kansas where the granary was more of an issue than the milk supplies. I was just coming back from Pittsburgh today with Secretary Skinner. We were talking about our backgrounds and our heritage, and I told him that Senator Dole's father ran a granary in Russell, KS, in the days when economic times were pretty thin.

I thank you for your answers, Mr. Secretary, and I again compliment you on the work you have done so far and look forward to working with you and your deputies.

Thank you, Mr. Chairman.

SUBMITTED QUESTIONS

Senator BURDICK. This concludes today's hearing. Thank you, Mr. Secretary, for appearing before us and for your testimony. I want to reiterate that we look forward to working with you. Additional questions will be submitted in writing, and we ask you to respond to them within 5 days.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BURDICK

CATTLE INSPECTION

Question: As I am sure you are aware, you have got a major controversy on your hands surrounding the issue of a streamlined inspection system for cattle. The proposed rule has been out on this issue since the end of 1988. The Federal Register notice says the final rule will be published May 1. Now I'm told that the final rule will be issued in mid-May. Congress has been waiting for a report on how your proposal conforms to the recommendations of the National Academy of Sciences. At a hearing on March 15, I was told by Assistant Secretary Smith that the report would be available within a few days. Here we are six weeks later and the report has not been received. When can we expect it?

Answer: The Food Saftey and Inspection Service--FSIS--advises me that it is still working on the response to the National Academy of Sciences--NAS--report. As you know, the NAS report was very comprehensive, and the FSIS response will be comprehensive as well. As soon as the response is prepared by FSIS, it must then undergo review at various levels in the Administration. I can understand your concern about this very important issue and it will be forwarded to the Senate Appropriations Committee as soon as possible.

Question: Since Congress has requested to review your report prior to any implementation of a new plan, adequate time should be given for review and comment by Congress. Do you think two weeks gives us enough time?

Answer: We intend to comply fully with Congress' request to review the FSIS response to NAS, and ensure Congress has sufficient time to study the detailed provisions that will be addressed in the FSIS response.

Question: Even if you gave us the report today, how would you be able to review Congress' concerns and revise the regulations and still meet a mid-May publication deadline?

Answer: We do not have a mid-May publication deadline or any publication deadline. When FSIS completes its response to NAS, a decision will be made as to if, when and/or how a final rule might be published.

Question: I understand that the major changes would have to be made in the original rule if it were to comply with the NAS recommendations. Assistant Secretary Smith testified that your plan will comply with these recommendations. Under the Administrative Procedures Act, do you have to resubmit a proposed rule--rather than a final rule--if any major changes are made to the original proposed rule?

Answer: Since the NAS response is not completed, it is too early to tell what procedures will need to be followed. You can be sure that we will comply with the letter and the spirit of the Administrative Procedures Act.

Question: Under these circumstances, how can you publish a final rule at this time?

Answer: We have no schedule for publishing a final rule at this time.

EXPORT ENHANCEMENT PROGRAM

Question: Secretary Madigan, Congress just lifted the $425 million cap on the Export Enhancement Program. This was viewed as a top priority by the administration.

What additional EEP activity has there been? How much have you currently spent?

Answer: Since Congress lifted the $425 million EEP cap and the President signed that legislation into law on April 12, 1991 an additional $57 milliom in bonuses have been awarded. The total value of bonuses awarded to exporters during fiscal year 1991 is over $642 million as of May 7, 1991. We will provide for the record a listing of the bnonuses awarded by commodity.
(The information follows:)

07-MAY-91 EXPORT ENHANCEMENT PROGRAM PAGE 1
AWARDS FOR FISCAL YEAR 1991

COMMODITY	QUANTITY	UOM	MEAN BONUS
Barley Malt	17,250	MT	$ 1,015,755.73
Eggs	8,009,589	DOZEN	1,424,756.06
Feed Grains	544,500	MT	25,900,201.71
Frozen Poultry	17,085	MT	8,859,051.52
Rice	68,620	MT	3,418,117.04
Vegetable Oil	30,000	MT	3,715,632.84
Wheat	9,825,933	MT	399,927,325.79
Wheat Flour	281,000	MT	17,799,365.48
TOTAL			$ 462,060,206.17

Question: When Congress lifted the $425 million cap, we asked you to provide additional emphasis under EEP to vegetable oil, rice and poultry. While my state is not big in the poultry and rice area, it does produce a lot of sunflower oil. I have been told that it has been particularly difficult to get EEP bonuses for vegetable oil.

How are you responding to the directive for additional emphasis in these areas?

Answer: In general, I believe we have sold quite a bit of oil with EEP assistance and other export promotion programs. I will ask the Foreign Agricultural Service to provide details and figures on vegetable oil sales.
(The Information Follows:)

From April 10 to May 7, 1991, 18,000 MT of vegetable oil were sold under the Export Enhancement Program--EEP, paying bonuses of $1,829,377. Currently, there are two outstanding EEP offers for vegetable oil. As of May 7, 1991, Morocco was eligible to purchase 30,000 MT of vegetable oil and Tunisia was eligible to purchase 42,000 MT.

Sunflower oil is also promoted by FAS through the Sunflower Oil Assistance Program --SOAP. As of MAY 7, 1991, 132,300 MT of sunflower oil had been sold under this program. This year, SOAP sales have been, and will continue to be, limited because of the tight U.S. supply situation. Until the expected large U.S. 1991 crop is available in the fall, exporters will be hard pressed to make large sales under SOAP.

Question: We also urged that 100 million pounds of nonfat dry milk and 100 million pounds of butter be exported under EEP. Do you expect to meet those goals? How much milk and butter have you exported to date under EEP?

Answer: The Department is mandated by provisions of the 1990 Farm Bill to operate a Dairy Export Incentive Program--DEIP--to make the price of U.S. dairy products competitive in the world market. According to the information I have from the Foreign Agricultural Service, we have targeted 73 countries for 141,800 metric tons of milk powder and 61 countries for 40,800 metric tons of butterfat. We are working closely with the dairy industry to encourage their utilization of the DEIP, and have approved sales of over 9,700 metric tons. Additional sales will depend on the ability of U.S. exporters to secure sales in the countries targeted under the DEIP. As we have established the DEIP, as required by law, we do not plan to include dairy products under the Export Enhancement Progrm--EEP. The structure and operation of the DEIP is identical to the EEP, and we do not see any advantage to the industry, or the Department, to operate two identical programs.

Question: In the event that surplus Commodity Credit Corporation inventories are insufficient to serve as bonuses, what options are available to USDA to continue the Export Enhancement Program?

Answer: In the immediate future, we anticipate adequate CCC inventories to operate the Export Enhancement Program. However, in the event that inventories become a limiting factor in effectively carrying out the program would have to consider using cash bonuses as provided in the Food, Agriculture, Conservation, and Trade Act of 1990.

SOVIET CREDITS

Question: I understand that the Soviets have requested new export credits and are now awaiting a response from the United States Government. I would like to know your views on this matter, including whether you believe the Soviets will purchase U.S. commodities withoput these credits, and whether USDA believes that the Soviets are capable of repaying the debts.

Answer: We believe the Soviets will continue some purchases of U.S. commodities without new credit guarantees, although not at levels which would be attained if substantial additional guarantees are provided. As to the credit-worthiness question, that continues under review, and we hope to have that review completed soon. Clearly the Soviet economy has suffered

some decline and this has led to some question about Soviet ability to meet debt service requirements.

NORTH AMERICAN FREE TRADE AGREEMENT

Question: We are currently hearing a lot of speculation about how a U.S.-Mexico or North American Free Trade Agreement would affect American agriculture. Has USDA assessed the effect of such agreements on our agricultural sector? If so, what has USDA found?

Answer: USDA is currently analyzing the potential effects of the proposed North American Free Trade Agreement--NAFTA--on U.S. Agriculture. Our initial analysis suggests that U.S. farmers would realize trade gains from a NAFTA. However, detailed analysis of the potential impacts of the NAFTA is difficult given that the negotiations have yet to begin and, thus, the scope of the final agreement is uncertain. Clearly, transitionary measures negotiated between our three countries will greatly determine the final impact of the agreement on sensitive agricultural products.

The Department has completed an "Interim Review" which outlines the scope of our agricultural trading relationship with Mexico and Canada. This document has already been provided to Members of Congress.

Question: In the proposed context of the North American Free Trade Agreement negotiations, is USDA prepared to seek the reopening of the Canadian Free Trade Agreement to settle outstanding issues such as the "Crows Nest Pass" rail subsidies and the pricing practices of the Canadian Wheat Board?

Answer: In general, it is not our intention to re-open the U.S.-Canada Free Trade Agreement--CFTA--during the NAFTA negotiations. We certainly do not want to weaken any provisions in the CFTA. However, should the opportunity arise during the NAFTA negotiations to build upon and thereby strenghten provisions contained in the CFTA, we will take advantage of it. Internal support programs such as Canada's rail subsidies remain a critical aspect of the Uruguay Round negotiations.

Question: I understand that the producer subsidy equivalents found in the Free Trade Agreement with Canada now indicates that the level of subsidies for wheat in the U.S. and Canada is relatively equal and that Canada can no longer refuse U.S. wheat. Is that true? If so, does this change go into effect?

Answer: On May 3, we announced the results of this year's comparison of levels of government support for wheat and barley. U.S. government support for wheat was calculated to now be more than four percentage points lower than the Canadian government's level of support for wheat. Consequently, Canada will remove its import licensing requirement for wheat and wheat products. The Government of Canada has not announced the effective date of this action, but we expect such an announcement very soon. As for

barley, the level of government support in the U.S. is some eight percentage points higher than Canada.

APHIS USER FEES

Question: I understand that the Department issued a final rule on agricultural quarantine and inspection user fees for both domestic and foreign travel this week. The conference report accompanying the supplemental appropriations bill included language that specifically expected you to wait with user fees on domestic travel until Congress has considered them. Why have you totally ignored this language?

Answer: We did not ignore the language in the supplemental appropriation. As you know, the deficit reduction targets resulting from the Omnibus Budget Reconciliation Act of 1990 required APHIS user fee savings equal to the entire cost of the AQI program. We are prohibited from using international user fee collections to subsidize the cost of the domestic AQI program. Thus, in order to comply with OBRA, we had to proceed with domestic fees to cover the costs of the domestic program. We separated the implementation of the domestic travel fees from that for the international traveler. The fees for the international traveler became effective May 13, 1991. The domestic traveler user fee collections will be implemented August 1, 1991 in order for Congress to have additional time to take another look at the issue.

ADVISORY COMMITTEES

Question: You have proposed an increase of $494,000 for new advisory committees. What new committees do you propose to fund in 1992?

Answer: I will provide that information for the record.

(The informations follows:)

The increase was assigned to the following committees:

National Nutrition Monitoring Advisory Council
Advisory Committee on Welfare Simplification and Coordination
Advisory Council for the National Genetic Resources Program
Agricultural Science and Technology Review Board
Advisory Council on National Sustainable Agriculture
Global Climate Change Technical Advisory Committee
National Organic Standards Board
Agriculture Committee for Providing Advice to Emerging Democracies
Soil Conservation Service Advisory Committee

Question: Does your request include funds for the following boards? If so, please specify how much and the purposes of each. If not, why not?

1. Agricultural Science and Technology Review Board?
2. National Organic Standards Board?

3. Alternative Agricultural Research and Commercialization Board?

Answer: The FY 1992 Budget Request includes funds for the Agricultural Science and Technology Review Board and the National Organic Standards Board, but not for the Alternative Agricultural Research and Commercialization Board. I will provide more details on these committees for the record.

(The information follows:)

The FY 1992 Budget includes $65,000 for the Agricultural Science and Technology Review Board. These funds would be used to achieve the following purposes: (1) to prepare technical interpretations of current and emerging agricultural and environmental science issues for use by the Joint Council on Food and Agricultural Sciences and the Advisory Board, and (2) to provide technology assessments of current and emerging public and private technology transfer initiatives and emerging technologies from private industry. Also, $120,000 is included for the National Organic Standards Board. These funds would be used to assist in the development of standards for substances to be used in organic production and to advise the Secretary on any other aspects of the implementation of the Organic Foods Production Act of 1990.

Fiscal year 1992 funding is not proposed for the Alternative Agricultural Research and Commercialization Board, nor for other activities and entities authorized under Subtitle G, Alternative Agricultural Research and Commercialization. Ongoing work on new uses is carried out under the authorities of the Federal Technology Transfer Act and other authorities available to the Department and a board is not needed at this time.

Question: Why have you proposed no funding for the National Nutrition Monitoring Advisory Council?

Answer: The agency advises me that at the time the Explanatory Notes were prepared, the Department had not decided which committees authorized by recently enacted legislation could be funded within the fiscal year 1992 budget request. These decisions were made in March, when we proposed $65,000 for the National Nutrition Monitoring Advisory Council. The appropriate page of the Explanatory Notes was revised and sent to the appropriations committees.

REPORTS

Question: Several reports and studies were authorized or requested in the 1990 Farm Bill.

Please provide a list of those reports and studies, their purposes, deadlines, if any, estimated costs, and the Department's proposed action each for fiscal year 1991 and 1992.

Answer: I will be happy to provide for the record the list of studies and reports. This list was compiled in response to

Section 2515 of the Farm Bill, known as the Dole Amendment. We are still in the process of reviewing which studies we will complete.

(The information follows:)

STUDIES AND REPORTS

IN THE

FOOD, AGRICULTURE, CONSERVATION, AND TRADE ACT OF 1990

United States Department of Agriculture
December 1990

INTRODUCTION

Attached is a priority ranking of studies and reports authorized by the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 This ranking was compiled in compliance with Section 2515, "Scarce Federal Resources", of the Act which says:

> Notwithstanding any other provision of this Act, to conserve scarce Federal resources, the Secretary of Agriculture may after concurrence with the Chairman and Ranking Member of the Committee on Agriculture, Nutrition, and Forestry of the Senate and the Chairman and Ranking Member of the Committee on Agriculture of the House of Representative, rank by priority the studies or reports authorized by this Act and determine which of those studies or reports shall be completed. The Secretary shall complete at least 12 such studies or reports.

A priority rank has been assigned to each study or report. The ranks are defined as follows:

1 -- High Priority

2 -- Lower Priority

3 -- Lowest Priority

Studies or reports with specific due dates are listed first in each priority category followed by "Operational Reports" which are reports due annually, quarterly, or on some other recurring schedule.

In addition to the attached list there are some provisions in the FACT Act which contain non-mandatory studies or reports. Since the statute does not require the Secretary to complete the study or report mentioned in these provisions, the completion or non-completion of the study or report is not subject to Congressional concurrence. For information only, the provisions with discretionary studies or reports are listed below.

DISCRETIONARY PROVISIONS

Section 1244(b)	Study Concerning New York-New Jersey Highlands
Section 1823	Report on Corrective Actions in Response to OIG and GAO Reports on FmHA Systems for Loan Application Review and Monitoring of Servicing for Guaranteed Loans
Section 2411	Study of Reforestation and Improved Management of DOO lands

The Appendix, which is attached to the Priority Ranking of Studies and Reports, contains a list of miscellaneous provisions which contain requirements similar to study or report requirements. The requirements, however, are not the type of "study or report" requirements thought to be covered by Section 2515. The miscellaneous provisions listed include requirements for demonstration projects, compilations of data, and research. These provisions have not been given a priority ranking pursuant to Section 2515.

The Appendix also contains a list of provisions with non-USDA study or report requirements. Non-USDA study or report requirements include Advisory Committee reports and studies or reports to be completed by entities other than USDA.

AGENCY ABBREVIATIONS

Abbreviations	Agency
(ACEQ)	Agriculture Council on Environmental Quality
(AMS)	Agricultural Marketing Service
(AID)	Agency for International Development
(AMS)	Agricultural Marketing Service
(APHIS)	Animal and Plant Health Inspection Service
(ASCS)	Agricultural Stabilization and Conservation Service
(CSRS)	Cooperative State Research Service
(ERS)	Economic Research Service
(ES)	Extension Service
(FAS)	Foreign Agricultural Service
(FCIC)	Federal Crop Insurance Corporation
(FGIS)	Federal Grain Inspection Service

(FmHA)	Farmer's Home Administration
(FNS)	Food and Nutrition Service
(FS)	Forest Service
(HNIS)	Human Nutrition Information Service
(IACG)	Interagency Aquaculture Coordinating Group
(NAL)	National Agricultural Library
(NASS)	National Agricultural Statistics Service
(NOSB)	National Organic Standards Board
(OAE)	Office of Advocacy and Enterprise
(SCS)	Soil Conservation Service

PRIORITY RANKING

OF

STUDIES AND REPORTS

STUDIES AND REPORTS RANKED PRIORITY # 1

STUDY NAME (Agency)	SECTION #	COMMENTS
Milk Inventory Management Program Report (ASCS)	Section 101	DUE: 8/01/91
Minnesota-Wisconsin Price Series Compilation of Data and Report Reform (AMS)	Section 103	DUE: Hearings must be announced not later than 10/01/91 (Data compilation must be complete before hearings.) Report is due after final decision on hearings proposals.
Response to National Research Council Report (FS)	Section 1241(d)	DUE: 5/28/91
Evaluation of Title XII Programs and Comprehensive Report (ERS/SCS)	Section 1444	DUE: 6/30/93
Plan for Awarding Plant Genome Mapping Grants (CSRS/ARS)	Section 1671(d)	DUE: 2/26/91

Review and Report on State Compliance with Regulations and Standards for Automated Data Processing (FNS)	Section 1763	DUE: 10/1/93
School Lunch Bonus Commodity and Trends Study and Report (FNS)	Section 1779(a); (c)(1) & (c)(3)	DUE: 10/01/91 (Interim Report) 10/01/93 (Final Report)
Estimate of Benefits and Costs Associated with Improved Grain Quality and a Related Finding (FGIS)	Section 2003 and 2005	DUE: As soon as practicable after enactment

Operational Reports

Report on Commissions, Fees, or Other Compensation paid to Agents, Brokers or Other Representatives of Importers or Importing Countries (FAS)	Section 1512 [Sec. 407(b)(3)]	DUE: Annually
Export Assistance Report (FAS)	Section 1531 [Sec. 603]	DUE: Quarterly
National Research Initiative Reports (CSRS)	Section 1615	DUE: 1/01 Annually
Reports on Sustainable Agriculture Programs (CSRS/ES/ARS)	Section 1622(b)	DUE: 4/01/91 and Annually thereafter

STUDIES AND REPORTS RANKED PRIORITY # 2

STUDY NAME (Agency)	SECTION #	COMMENTS
Multiple Component Pricing Study (AMS/ERS)	Section 116	DUE: 5/01/91
Survey of Program Participants (ASCS)	Section 1148	DUE: 1/31/93
Study of the Fruit and Vegetable Industry (AMS/ERS)	Section 1304	DUE: 5/01/92
Cosmetic Appearance Research Report (AMS)	Section 1352(f)	DUE: 9/30/92 (Report on Marketing Policy Research); 9/30/93 (Report on Market Research Projects)
Wine and Winegrape Industry Study (AMS/ERS)	Section 1362	DUE: 12/31/91

Availability of Pest Control Methods (ARS/APHIS/ES)	Section 1495	DUE: 5/28/91 Note: USDA is required to provide EPA with information on pest control methods.
Study of North American Free Trade Area (FAS/ERS)	Section 1551	DUE: 3/31/91
Study of Economic Impact of Animal Damage to Aquaculture (ERS/APHIS/CSRS)	Section 1614(a)	DUE: 1/01/92
Report on Projected Needs for Genetics Resources Programs (ARS)	Section 1633(e)	DUE: 11/28/91
Reports on Research on Production, Preparation, Processing, Handling, and Storage of Agricultural Products (CSRS)	Section 1646	DUE: 11/28/91
Special Grant to Study Constraints on Agricultural Trade (CSRS)	Section 1678	DUE: Not later than 3/28/92
School Lunch Cost of Production and Participation Study and Report (FNS)	Section 1779(b); (c)(2) and (c)(3)	DUE: 10/01/92 (Interim Report) 10/01/93 (Final Report) NOTE: FNS plans to respond to Section 1779(b)(D)
Study and Report on Conservation Easements on Wetlands on FmHA Inventory Property (FmHA)	Section 1813(h)(2)	DUE: 1/31/91
Report on Cotton Research and Promotion (AMS)	Section 1998(a)(1) and (c)	DUE: One year after the date on which imports are subject to assessments
Studies of Global Climate Change, Agriculture, and Forestry (ARS/ERS/FS)	Section 2403	DUE: 11/28/93 and 11/28/96 with interim reports due annually
Recordkeeping and Other Paperwork Reduction Report (OIRM)	Section 2516	DUE: 1/28/92
Study of the Transportation of Fertilizer and Agriculture Chemicals (AMS)	Section 2517	DUE: 5/01/92

Operational Reports

Evaluations of CCC Dairy Product Acquisitions and Disposals (ASCS)	Section 105	DUE: Quarterly

Wheat Loans/Purchases Adjustment Report (ASCS)	Section 301	DUE: Will be a part of the Impact Statement for the Regulations making the adjustment.
Corn Loans/Purchases Adjustment Report (ASCS)	Section 401	DUE: Will be a part of the Impact Statement for the Regulations making the adjustment.
Sugar Support Price Adjustment Report (ASCS)	Section 901	DUE: Will be a part of the Impact Statement for the Regulations making the adjustment.
Secretary's Report on Recommendations of the National Agricultural Research and Extension User's Advisory Board (CSRS)	Section 1604(h)	DUE: Not later than 2/01 Annually
Agriculture and Nonagriculture Pesticide Use Reports (NASS)	Section 1491(f)	DUE: 4/01 Annually beginning 4/01/92
Determination of Agricultural Commodities Available for Disposition to Foreign Countries (FAS)	Section 1512 [Sec. 401]	DUE: Congressional notification as needed
Military Distribution of Food Aid (FAS/AID)	Section 1512 [Sec. 403(i)]	DUE: Not later than 30 days after authorization
Long Term Agricultural Trade Strategy Report (FAS)	Section 1531 [Sec. 601]	DUE: Initial report due prior to 10/01/91 Subsequent reports shall be submitted prior to 10/01 of each third fiscal year occurring after FY 1992. Annual updates of the report are due in each of the two years following submission of the report. The updates shall be submitted with the Budget.
Compilation of Annual Reports by Agriculture Attaches (FAS)	Section 1532	DUE: Annually NOTE:This report will be combined with the Long Term Strategy Report in Section 1531
Report on Foreign Debt Burdens (FAS/ERS)	Section 1542(e)(2)	DUE: Semi-annually
Report on National Genetics Resources Programs (ARS/CSRS)	Section 1633(d)	DUE: Biennially
Report on Plant Genome Mapping Grants (ARS)	Section 1671(g)	DUE: Annually

Program Plan for National Centers for Agricultural Product Quality Research (CSRS)	Section 1675(d)	DUE: Every three years
Estimates of Types and Quantities of Commodities Available for Emergency Food Assistance Act Donations (FNS)	Section 1772	DUE: 10/01 Annually
Independent Evaluation of Fluid Milk Promotion Program (AMS)	Section 1999H(m)	DUE: Annually Note: Evaluation to be arranged by USDA
Special Reports Based on Producer Surveys (NASS)	Section 2514(b)	DUE: Annually
Reports Based on Survey of Producers for Information on Fruit and Nut Tree Inventories (NASS)	Section 2514(c)	DUE: Every three to five years as determined by the Secretary

STUDIES AND REPORTS RANKED PRIORITY # 3

STUDY [redacted] (Agency)	SECTION #	COMMENTS
Land Use for Expiring Conservation Reserve Program Contracts (ASCS)	Section 1437	DUE: 12/31/93
Agriculture Water Quality Incentives (ASCS)	Section 1439 (See 1238F)	DUE: 9/30/92 (Interim Report); 9/30/94 (Final Report)
Environmental Quality Policy Statement Report (ACEQ)	Section 1473(c)	DUE: 1/31/92
Soil and Water Activities Report (SCS)	Section 1482(d)	DUE: 1/31/92
Agriculture Practices and Water Resources Data Base Development Report (NAL)	Section 1485(b)	DUE: 8/25/91
World Livestock Market Price Information (FAS)	Section 1545	DUE: 11/24/91
Rose and Flower Study (ERS/FAS)	Section 1552	DUE: 5/28/91
Commodity Transportation and Technology Assessment and Report (AMS/ERS)	Section 1553	DUE: 7/28/91

Report on Language Proficiency and Evaluation of FAS Officers (FAS)	Section 1556	DUE: 5/28/91
Study of Animal Care Delivery System (APHIS/ES/ARS/NAS)	Section 1611(a)	DUE: No date specified NOTE: The Secretary must commission an NAS study
Study of USDA Affirmative Action Programs, Appeals Process, and Contracting Practices (OAE)	Section 2501(d)	DUE: 11/28/91

Operational Reports

Report on Sugar Imports from Cuba (FAS/ASCS)	Section 903(2) [See "(2)(A)"]	DUE: 2/26/91 and 8/01 Annually thereafter through 1995
Report on Quota Allocations to Countries Importing Sugar (FAS/ASCS)	Section 903(2) [See "(2)(B)"]	DUE: 1/01 Annually beginning with the quota year for sugar imports after the 1990-1991 quota year
Financial Impact Study (ASCS)	Section 1147	DUE: Annually (Not later than date of final announcement for programs)
Promotion of Agricultural Exports to Emerging Democracies (FAS)	Section 1542(d)(6)	DUE: Annually
Report on Section 22 Suspension or Termination (FAS/ERS/FmHA)	Section 1554	DUE: Congressional notification when necessary
Tobacco Export Report (FAS/AMS)	Section 1557	DUE: Quarterly
Report on Origin of Exported Peanuts (FAS/AMS)	Section 1558	DUE: Annually
Grain Quality Coordinator Investigations and Communications (FGIS)	Section 2002(b)(5)	DUE: No date specified
Review and Report on USDA Efforts for Socially Disadvantaged Farmers and Ranchers (OAE)	Section 2501(c)	DUE: 9/30/92 and Every two years thereafter
Report on Return on Assets (ERS)	Section 2512(b)	DUE: Annually
System for Informing Consumers of the Amount Paid Producers for Each Primary Commodity Contained in Retail Products (ERS)	Section 2513	DUE: Annually

APPENDIX

MISCELLANEOUS PROVISIONS

AND

NON-USDA STUDIES AND REPORTS

DEMONSTRATION PROJECTS

PROJECT NAME (Agency)	SECTION #	COMMENT
Pilot Voluntary Production Limitation Program (ASCS)	Section 301	DUE: Effective for the 1992 or 1993 wheat crop; no report required from USDA
Options Pilot Project (ASCS)	Section 1151-1156	DUE: Effective for each of the 1991-1995 crops of corn and for each of the 1993-1995 crops of wheat and soybeans
Forest and Rangeland Research in Blue Mountain Area of Washington and Oregon (FS)	Section 1246	DUE: No date specified
Country of Origin Labeling Pilot Program (AMS)	Section 1305	DUE: 11/28/92
Agricultural Resource Conservation Demonstration Program (Farms for the Future) (FmHA)	Section 1465-1469	DUE: Report required 9/30/92 and annually thereafter
Pilot Project to Coordinate Food and Nurtrition Education Programs (ES/HNIS/FNS)	Section 1679	DUE: Effective for 1991-1995
Demonstration Grants for Assistive Technology Program for Farmers with Disabilities (ES/CSRS)	Section 1680(a)	DUE: No date specified NOTE: In addition to the demonstration grants, Section 1680(b) requires a grant to a national private nonprofit disability organization
Voluntary Food Stamp Employment and Training Program (FNS)	Section 1726	DUE: Through 9/30/95

Employment and Training/JOBS Coordination Demonstration Project (FNS)	Section 1756	DUE: No date specified
Demonstration Projects for Vehicle Exclusion Limit in Food Stamp Program (FNS)	Section 1757	DUE: No date specified
Demonstration Project for AFDC/FSP Simplification (FNS)	Section 1758	DUE: No date specified for demonstration; report due not later than 6 mos after termination of any project
Food Stamp Outreach Demonstration Projects (FNS)	Section 1759	DUE: Within 180 days after funds are appropriated, the Secretary must publish notices required for implementation reports on projects are due at 1 year and 3 year intervals
Grants for Food Stamp Nutrition Education Improvements (ES/FNS)	Section 1761	DUE: No date specified for the grant program implementation or the required report
Nutrition Program for the Elderly National Commodity Processing Progam Demonstration (FNS)	Section 1775	DUE: Effective in 1992 and 1993
Rural Development Demonstration Projects (FmHA)	Section 2348	DUE: No date specified
Rural Health Infrastructure Improvement Demonstration Project (ES)	Section 2391	DUE: No date specified
Urban Forestry Demonstration Projects (FS)	Section 2409	DUE: No date specified
Biomass Energy Demonstration Projects (FS)	Section 2410	DUE: No date specified

LISTING/CLEARINGHOUSE REQUIREMENTS

LISTING NAME (Agency)	SECTION #	COMMENT
Data Collection on Flood Control and Conservation Measures (SCS)	Section 1463	DUE: No date specified
Compilation of Compost Uses and Processes for Composting Agriculture Wastes (ARS/ES)	Section 1456(c)	DUE: No date specified

Registrations, Reregistrations, and Tolerances for Pesticide Uses (ARS/ES/CSRS)	Section 1497	DUE: 11/28/91
Compilation of Export Sales Reports (FAS)	Section 1531 [Sec. 602]	DUE: Daily/Weekly
Listing of Laws on Aquaculture (IACG)	Section 1614(a)	DUE: 1/01/92 (Initial List) 1/01/96 (Updated List)
Pest and Disease Control Data Base (ES/NAL)	Section 1651	DUE: No date specified
National List of Approved and Prohibited Substances (AMS/NOSB)	Section 2118/2119	DUE: No date specified
Review of Policies, Compilation of Rates for Actuarial Soundness and Information Collection (FCIC)	Section 2204	DUE: 5/28/91
Clearinghouse at the Semiarid Agroforestry Research Center (FS)	Section 1243	DUE: No date specified
Seed Variety Information and Survey (NASS/ARS)	Section 2013	DUE: Periodically
Catalog of State, Federal, or Private Programs that Provide Leadership Training or Other Information or Services Related to Enhancing Leadership Abilities in Rural Areas (NAL/ES))	Section 2346 [Sec. 502(b)(3)]	DUE: No date specified

RESEARCH

PROJECT NAME (Agency)	SECTION #	COMMENT (No due dates are specified for the research listed below.)
Renewable Resource Management Problems (FS)	Section 1241(a)(3)	NOTE: Discretionary provision
Wood Fiber Recycling Research Program (FS)	Section 1241(b)	NOTE: Discretionary provision
Southern Forest Regeneration Program, Programs in Other Regions, or a National Program (FS)	Section 1242	NOTE: Secretary shall make grant to establish the Southern Center; Secretary may make grants to other regions or to conduct a National program

Semiarid Agroforestry Research Center (FS)	Section 1243	
International Forest Products Trade Institute (FS)	Section 1247	NOTE: Discretionary provision
Grants for Research on the Production and Marketing of Alcohols and Industrial Hydrocarbons from Agricultural Commodities (CSRS)	Section 1609	NOTE: Discretionary provision
Special Research Grants (CSRS)	Section 1616	NOTE: Discretionary provision
Research and Education Program on Integrated Resource Management and Integrated Crop Management (ARS/CSRS/ES)	Section 1627	
Competitive Grants Program for Research on Atmospheric Sciences and Climatology (CSRS)	Section 1638(c)	NOTE: Discretionary provision
Research on Integrated Pest Management (ARS/CSRS)	Section 1650	
Expansion of Research on Exotic Pests (ARS/CSRS)	Section 1652	
Research and Education Program to Study the Biology and Behavior of Chinch Bugs (ARS)	Section 1653	
Biotechnology Risk Assessment Research (ARS/CSRS)	Section 1668	
Grants to Assist Research Institutions to Improve Livestock Product Safety and Inspection Programs (CSRS)	Section 1670	NOTE: Discretionary provision
Animal Lean Content Research (ARS/CSRS)	Section 1672(a)	NOTE: Discretionary provision
Ethanol Research (ARS)	Section 1672(b)	NOTE: Discretionary provision
Aflatoxin Research (ARS)	Section 1672(c)	
Mesquite Research (CSRS)	Section 1672(d)	

Prickly Pear Research (CSRS)	Section 1672(e)	
Immunoassay Research (CSRS)	Section 1672(f)	
Niche Market Development (CSRS/ES)	Section 1672(g)	
Scrapie Research (ARS/CSRS)	Section 1672(h)	NOTE: Discretionary provision
Deer Tick Ecology and Related Research (ARS)	Section 1672(i)	
New Commercial Products From Natural Plant Materials (ARS/CSRS)	Section 1672(j)	NOTE: Discretionary provision
Research on Honeybee Diseases (ARS)	Section 1681	
Rural Development Research Assistance Grants (CSRS)	Section 2349	

ADVISORY COMMITTEE REPORTS

REPORT NAME	SECTION #	COMMENT
Annual Report of Joint Council	Section 1604(a)	DUE: 6/30 Annually
Five Year Plan of Joint Council	Section 1604(a)	DUE: 11/30/90 with an update every two years thereafter
Users Advisory Board Recommendations Report	Section 1604(b)	DUE: 7/01 Annually
Users Advisory Board Budget Appraisal	Section 1604(b)	DUE: 2/20 Annually
Science and Technology Review Board Technology Assessment Report	Section 1605	DUE: 12/31 Annually
National Sustainable Agriculture Advisory Council Report	Section 1622(d)	DUE: Annually
Regional Sustainable Agriculture Administrative Councils Reports	Section 1622(e)	DUE: Annually
National Genetics Resource Program Advisory Council	Section 1634(k)	DUE: No due date specified NOTE: Advisory Council may prepare such reports as deemed appropriate

Alternative Agriculture Research and Commercialization Board Report	Section 1662(g)	DUE: ASAP after end of each Fiscal Year Board must submit report to the Secretary; Secretary must transmit report to Congress not later than 30 days after receipt
Agriculture Research Facilities Planning and Closure Commission Report	Section 1674(f)	DUE: 7/28/91
Welfare Simplification and Coordination Advisory Committee Report	Section 1778(e)	DUE: 7/01/93
National Organic Standards Board Recommendations	Section 2119(k)(1)	DUE:No date specified

REPORTS REQUIRED FROM NON-USDA AGENCIES/ORGANIZATIONS

REPORT TITLE	SECTION	REPORTING ORGANIZATION
State and Private Forest Report	Section 1245	Presidential Commission DUE: Not later than 12/01/92
Tree Planting Foundation Report	Section 1264(n)	Private, nonprofit Foundation designated by President DUE: Not later than 3 mos. after the end of each fiscal year
Biological Pesticide Handling Study	Section 1498	NAS: DUE: 9/30/92 NOTE: National Academy of Sciences is required to study APHIS/FDA/EPA programs and procedures
Waiver of Minimum Levels of Agricultural Commodity Assistance to Foreign Countries	Section 1512 [Sec. 204(a)(3)]	AID DUE: Congressional notification when minimum levels waived
Report on P. L. 480, Section 416(b), Food for Progress	Section 1512 [Sec. 407(g)]	President DUE: 1/15 Annually
World Food Day Report	Section 1512 [Sec. 407(h)]	President DUE: 10/16 Annually
Report on Operation of Enterprise for the Americas Facility	Section 1512 [Sec. 614]	President DUE: Not later than 12/31 each year
Study of and Report on Implementation of Shipping Provisions	Section 1526	Secretary of Transportation DUE: Not later than 12/31/94

Report on Cotton Import Assessments	Section 1998(a)(2)	Customs Service DUE: One year after the date on which imports are subject to assessments
Monitoring Economic Progress of Rural America	Section 2382	Census Bureau DUE: No date specified
Survey on Agricultural Accidents and Farm Safety of Agriculture	Section 2392	Census Bureau DUE: As part of 1992 Census

GAO and OTA Reports

REPORT TITLE	SECTION	REPORTING ORGANIZATION
Report on Pilot Voluntary Production Limitation Program	Section 301	GAO DUE: No date specified
Independent Evaluations of P.L. 480 Programs	Section 1512 (Sec. 410)	GAO DUE: 11/28/92 and every two years thereafter
Audit of Simplified Food Stamp Applications at Social Security Administration Offices	Section 1742	GAO DUE: Not later than 12/31/91
Study of Nutritional Needs in Puerto Rico	Section 1762	GAO DUE: 8/01/92
Report on Processing Entitlement Commodities Used in Child Nutrition Programs	Section 1773(f)	GAO DUE: 1/01/92
Study and Report on Rural Credit Cost and Availability	Section 1842	GAO DUE: Not later than 11/28/92
Report on Cotton Research and Promotion Program as Related to Imports	Section 1998(b) and (c)	GAO DUE: Three years after the date on which imports are subject to assessments
Report on Fluid Milk Promotion Program	Section 1999Q	GAO DUE:1/01/95
Study of Effects of Information Age Technology on Rural America	Section 2385	Office of Technology Assessment DUE: No date specified

CREDIT REFORM

Question: Of all the credit accounts, where there are existing revolving loan funds, I understand that these funds will revert to the Treasury at the end of this fiscal year. Is that correct? For each of these funds, please specify how much money is currently in the fund, and what is your estimate of the amount that will revert to the Treasury at the end of the year?

Answer: Even though credit reform was mandated in the 1990 Reconciliation Act, the initial year of implementation is 1992. No funds will revert to the Treasury at the end of this fiscal year. Beginning in 1992, cash balances remaining in the liquidating accounts of revolving funds at the end of each fiscal year will be used for two purposes: (1) repayment of Treasury debt, and (2) maintaining a limited reserve in the liquidating account. All revolving funds will have some cash remaining in their liquidating accounts at the end of each fiscal year.

SALMONELLA ENTERITIDIS

Question: It has come to my attention that funding for the national task force on salmonella enteritidis has been exhausted. What is the history and purpose of the task force?

Answer: APHIS advises me that the history regarding the outbreaks and cases of Salmonella enteritidis--SE--in humans in the Northeast United States was reported by the Centers for Disease Control in April 1988. Because of the threat that this problem could increase and spread to other parts of the country, and also because of the disastrous effect this disease was having on human health and the poultry industry in Great Britain, the USDA proposed an emergency program at the end of 1989. Secretary Yeutter declared that an emergency existed, and the APHIS Salmonella enteritidis--SE--control program was started in February 1990 with an emergency CCC appropriation of $6.8 million. The program was designed to trace back from reported human outbreaks of SE that were caused by contaminated eggs, to the flocks of origin, test these flocks for SE and if the flocks were positive, have the eggs from these flocks diverted from the table egg market to pasteurization plants until the layer hens were depopulated. Pasteurization plants are able to process these eggs making them suitable for use in non-table egg markets. The Task Force was established to coordinate the efforts of APHIS, the Agricultural Research Service, the Agricultural Marketing Service, the Food and Drug Administration, and the Centers for Disease Control.

Question: What has it accomplished?

Answer: APHIS advises me that since the start of the program, 73 SE outbreaks in humans have been reported. Of these, eggs were implicated in 25. Traceback investigations from these outbreaks led to 14 flocks, one in Maryland, one in Alabama, one in Delaware, three in Indiana, and eight in Pennsylvania. As a result, almost 700 million eggs from these flocks were sent for pasteurization rather than being used as table eggs.

The traceback program from human outbreaks will continue during FY 1991 and into FY 1992. In addition, APHIS has proposed to the egg industry for FY 1992, to coordinate a voluntary integrated risk reduction program for SE which would reduce the number of human outbreaks and cases to a very low level.

Question: How much funding has been used for this task force and from what account?

Answer: Approximately $5.5 million of the initial $6.8 million emergency Commodity Credit Corporation allotment has been spent to date.

Question: Have other agencies or departments contributed to its funding?

Answer: No other agencies or departments have contributed towards the expense of operating the Salmonella enteritidis Task Force.

Question: Are you proposing to continue the task force in 1992?

Answer: At the time the President's budget was being developed, it was not clear how long the program would or should continue. No funding is specifically included for continuing the Task Force. The USDA continues to work with industry and other agencies in an effort to decide the future of the SE Program.

Question: If so, with what funds and in what amount?

Answer: The emergency appropriation for the Salmonella enteritidis program for a 2-year period--FY 90/91--was $6.8 million dollars. If it is decided to continue the program beyond this 2-year period, it will be necessary to transfer monies from the APHIS contingency fund. Once we determine the amount, we will inform the committee.

TECHNICAL CORRECTIONS IN THE 1990 FARM BILL

Question: What technical corrections in the 1990 Farm Bill does USDA seek?

Answer: The Department has not submitted any legislative proposals to achieve technical corrections of the Food, Agriculture, Conservation and Trade Act of 1990. To the extent possible, where technical or drafting problems are encountered, we intend to use our rulemaking authorities to smooth program administration. However, if a technical correction bill was submitted then repeal of conservation cross compliance for dairy farmers should be considered.

FARM BILL

Question: You indicated in your testimony that many aspects of the 1990 Farm Bill are dependent on future appropriations action by the Congress for their implementation.

Please provide a list of those provisions that have not been funded in the past, and the amount of funds authorized for each provision.

Answer: I will provide for the record a list of new provisions that have not been funded in the past and the authorization for each provision.

(The information follows:)

FOOD, AGRICULTURE, CONSERVATION AND TRADE ACT OF 1990

Section	Program	Authorization for Appropriations
	TITLE I--Dairy	
1126	Disaster Payment 1991-95, Peanuts, soybeans and sugar	None, payments would require advance appropriations
1143(b)	Food Security Wheat Reserve	None
1151-1156	Options pilot program	Funds of CCC may not be used unless appropriated in advance
	TITLE XII--State and Private Forestry	
1213	Rural forestry assistance	Such sums as may be necessary
1215	Forest stewardship program	$25 million for each FY 1991 through 1995 and such sums as may be necessary thereafter
1216	Stewardship incentive program	$100 million for each FY 1991 through 1995 and such sums as may be necessary thereafter
1217	Forest legacy program	Such sums as may be necessary
1219	Urban and community forestry assistance	$30 million for each FY 1991 through 1995 and such sums as may be necessary thereafter
1232	Competitive forestry, natural resources, and environmental grants program	Such sums as may be necessary
1242	Southern forest regeneration program	Such sums as may be necessary
1243	Semiarid agroforestry research center	$5 million annually
1245	Presidential Commission on State and Private Forests	Such sums as may be necessary
1247	International forests products trade institute	Such sums as may be necessary
1252	Forestry student grant program	Such sums as may be necessary
1264	Tree planting foundation	$25 million
	TITLE XIII--Fruits, Vegetables, and Marketing	
1304	Study of Fruit & Vegetable Industry	None
1305	Country of origin labeling programs	Such sums as may be necessary
1309	Product from Distinct Geographic Areas	None
1321-1330	National laboratory accreditation	None
1351-1354	Cosmetic appearance	$4 million annually
	TITLE XIV--Conservation	
1438	Wetlands reserve program	Such sums as may be necessary
1439	Agricultural water quality incentives	Such sums as may be necessary
1440	Environmental easement program	Such sums as may be necessary
1441	Tree planting initiative	None

Section	Program	Authorization for Appropriations
1465-1470	Farms for the Future	$10 million per state per year in subsidized guaranteed loans
1471-1473	Agricultural Council on Environmental Quality	$2 million
1491	Pesticide recordkeeping	None
1497	Inter-regional research project number 4 (IR-4 Program)	$25 million for FY 1991 and such sums as may be necessary thereafter
	TITLE XV--Agricultural Trade	
1501-1512	Enterprise for the Americas initiative	Only to the extent provided for in advance in appropriation acts
1517	Debt-for-health-and-protection swap	Such sums as may be necessary
1531	Market Promotion Program (Successor to the Targeted Export Assistance Program)	CCC funds or commodities
1542	Promotion of agricultural exports to emerging democracies	CCC, for FY 1991 through 1995 shall make available not less than $1 billion of export credit guarantees
1553	Commodity Transportation and Technology assessment report	None
	TITLE XVI--Research	
1601(b)(3)(A)	Agricultural research under NARETPA, except subtitle H and sections 1414, 1416, 1417, 1419, 1420 and Hatch Act (section 1463(a) of NARETPA)	$855 million for each FY 1991 through 1995
1609	Grants for research on the production and marketing of alcohols and industrial hydrocarbons from agricultural commodities and forest products	$20 million for each FY 1991 through 1995
1610	Food science and nutrition research center	Such sums as may be necessary
1612(a)	Resident instruction at 1890 land-grant colleges including Tuskegee University	$11 million for each FY 1991 through 1995
1612(b)	Grants to upgrade agricultural and food sciences facilities at 1890 land-grant colleges including Tuskegee University	$8 million for each FY 1991 through 1995
1612(c)	National research and training centennial centers	$2 million for each FY 1991 through 1995
1614(b)	Aquaculture research facilities for Illinois State University and Virginia Polytechnic Institute and State University	$500,000 for each of the two facilities for FY 1991 through 1995
1614(d)	Aquaculture assistance programs	$1 million for each FY 1991 through 1993
1615	National competitive research initiative	FY 1991--$150 million FY 1992--$275 million FY 1993--$350 million FY 1994--$400 million FY 1995--$500 million
1619	Sustainable agriculture research and education	$40 million annually
1627	Integrated management systems	$20 million annually
1628	Sustainable agriculture technology development and transfer program	Such sums as may be necessary
1629	National training program in sustainable agriculture	$20 million annually
1637	National agricultural weather information system	$5 million for each FY 1991 through 1995
1644	Research regarding the production, preparation, processing, handling, and storage of agricultural products	Such sums as may be necessary for each FY 1991 through 1995
1650	Plant and animal pest and disease control program	Such sums as may be necessary
1664	Alternative agricultural research and commercialization	FY 1991--$10 million FY 1992--$20 million FY 1993--$30 million FY 1994--$50 million For each FY 1995 through 2000-- $75 million

Section	Program	Authorization for Appropriations
1670	Livestock product safety and inspection program	Such sums as may be necessary for each FY 1991 through 1995
1672(d)	Mesquite research	$100,000 for each FY 1991 through 1995
1672(e)	Prickly pear research	$100,000 for each FY 1991 through 1995
1672(i)	Deer tick ecology and related research	$250,000 for each FY 1991 through 1995
1673	Agricultural telecommunications program	$12 million for each FY 1991 through 1995
1674	Commission on agricultural research facilities	Such sums as may be necessary
1675	National centers for agricultural product quality research	Such sums as may be necessary for each FY 1991 through 1995
1676	Turkey research center, Pelican Rapids, Minnesota	$500,000 for FY 1992
1677	Indian reservation extension agents	Such sums as may be necessary
1680(a)	Assistive technology program for farmers with disabilities--Special demonstration grants	Not less than: FY 1991-1992--$3 million FY 1993-1996--$5 million
1680(b)	Assistive technology program for farmers with disabilities--Nat'l grant for technical assistance & training	$1 million for each FY 1991 through 1995
	TITLE XVII--Food stamp and Related Provisions	
1771(c)	Authorizes CSFP elderly only sites, subject to appropriations	Such sums as may be necessary
	TITLE XIX--Agricultural Promotion	
1905-1918	Pecan Promotion and Research Act of 1990	Such sums as may be necessary
1921-1933	Mushroom Promotion, Research, and Consumer Information Act of 1990	Such sums as may be necessary
1951-1963	Lime Research, Promotion, and Consumer Information Act of 1990	Such sums as may be necessary
1965-1976	Soybean Promotion, Research, and Consumer Information Act of 1990	Such sums as may be necessary
1999A-1999R	Fluid Milk Promotion Act of 1990	Such sums as may be necessary
	TITLE XX--Grain Quality	
2002	Grain Quality Coordinator	None
	TITLE XXI--Organic Certification	
2101-2123	Organic Foods Production Act of 1990	Such sums as may be necessary
	TITLE XXIII--Rural Development	
2346	Rural economic and business development (ES)--Extension Service	FY 1991--$5 million FY 1992--$10 million FY 1993--$15 million FY 1994 and each subsequent FY--$20 million
2501	Outreach and assistance for socially disadvantaged farmers and ranchers	$10 million for each FY
2509	Collection of fees for agriculture quarantine and inspection services	Such sums as may be necessary for plant inspection
2516	Recordkeeping Improvement	None

KANSAS CITY COMPUTER CENTER

Several concerns have been brought to my attention regarding USDA's Automated Data Procurement (ADP) policies. I would like to have your response to these concerns.

Question: Is it true that Kansas City Computer Center continues to budget all allocated dollars to expand its IBM systems using, in several cases, emergency acquisition procedures when the Honeywell--HFSI--mainframe is 65 percent underutilized and could be used to balance the workload at the center. If so, why?

Answer: Yes, it's true that the USDA's National Computer Center is budgeting dollars to expand its IBM-compatible systems. The USDA workload to be processed on those systems is increasing continually. I will supply more details on these systems for the record.

(The information follows:)

The following data show the growth over the past five years in the IBM-compatible workload and the decline in Honeywell activity at the National Computer Center.

	IBM-Compatible	Honeywell
CPU minutes (000) workload, FY 1987	9,475	931
CPU minutes (000) workload, FY 1991	18,745	70

The Center is a service bureau providing computer utility operations to USDA agencies. The services are demand driven, based upon the agencies' requirements and program mission. To meet their expanding mission requirements, agencies began using large centralized data base systems in the 1970's. They developed major applications, resulting in a significant investment in software. Because the Honeywell is not compatible with the IBM systems, it is not possible to divert the increasing IBM-compatible workload to the Honeywell without major applications software conversion. The agencies' major data base systems do not run on the Honeywell; therefore, balancing the workload on an ongoing basis is impossible.

Question: Has ASCS been advised not to develop any new applications using this mainframe? If so, why?

Answer: The Office of Information Resources Management has told me it was a joint decision not to develop new applications for the Honeywell. The decision was based upon economies of scale associated with a single large operating system. Duplicate functions; e.g., systems engineering, operations, tape library, data base administration will be eliminated.

IBM STANDARDIZATION

Question: Is it true that USDA has standardized on IBM and therefore served notice to the ADP community that it need not consider USDA a possible mainframe customer now or in the future?

Answer: I understand USDA has selected IBM-compatible hardware as its standard mainframe computer architecture. However, I will have to supply the details of that decision for the record.

(The information follows:)

The decision to use IMB-compatible hardware as the mainframe architecture has been in process for some time and had its roots in a USDA IRM Productivity Study conducted by Booz, Allen & Hamilton in 1986. One recommendation of that study was for USDA to adopt IBM-compatible hardware and software as the Department's standard mainframe architecture. Incidentally, a long-term economic analysis shows it very beneficial for USDA to do this. It provides a cost-effective method for securing data against catastrophic loss and a means for hot-site backup. Also, there is an increasing need to share information electronically across USDA agency lines, a point that is emphasized in the Agricultural Program Reporting and Recordkeeping Improvement Act of 1990. Standardizing at the mainframe level is a step in that direction. The decision to move to IBM-compatible architecture obviously tells the ADP community that only IBM-compatible hardware and software will be eligible under future mainframe procurements. This does not mean that IBM will be the sole vendor. There are many companies that supply such hardware and software. USDA's mainframe computer operations, including software, will continue to evolve in response to agency demands for service and in consideration of costs.

Question: If USDA has not standardized on IBM as a manufacturer, how much IBM compatible equipment has USDA procured?

Answer: The agency assures me that all USDA mainframe procurements have been and will continue to be done competitively. All suppliers of IBM-compatible equipment are given equal opportunity to bid on the published requirements. I will supply the record the list of IBM compatible equipment that has be procured Over the years, USDA's mainframe computer installations have acquired a number of IBM-compatible mainframe computers from National Advanced Systems, specifically, models NAS 9080, 5000, 8063, and XL60. Currently, at USDA's Kansas City location the IBM-compatible front-end processors are being supplied by Amdahl Corporation; Storage Technology Corporation is supplying many of the IBM-compatible tape drives; and several of the IBM-compatible high-speed printers are being supplied by the Xerox Corporation.

Question: Is USDA currently converting the Fort Collins data center workload from a UNISYS mainframe to the IBM systems in Kansas City? Was the HFSI DPS90 system considered as an alternative due to the excess capacity?

Answer: The agency tells me that the National Computer Center currently is in the process of converting the UNISYS applications to operate on IBM-compatible equipment. I will supply more detail on the operation for the record.

(The information follows:)

The use of the HFSI DPS90 was not a viable alternative due to the fact that it is not compatible with either the UNISYS or the IBM. To use the Honeywell for the current UNISYS applications workload would result in two major conversions: first, getting the applications to operate on the Honeywell, and second, getting the applications to operate on IBM-compatible equipment.

As mentioned earlier, USDA is standardizing its computer mainframes to become IBM-compatible. Our long-range plan, which has been under way since 1987, has been to consolidate and streamline mainframe operations. This plan has been pursued to provide USDA agencies with quality and cost-effective service. The benefits of this strategy are clearly demonstrated by our ability to reduce unit costs of data processing for USDA agencies. The following data show that the cost of a unit of IBM-compatible mainframe processing time at our National Computer Center has dropped over 40 percent from 1987 to 1991.

IBM-compatible unit cost, FY 1987	$2.62
IBM-compatible unit cost, FY 1991	1.57

DISASTER ASSISTANCE

Question: Mr. Secretary, one of the issues you are going to hear a lot about when you travel to North Dakota tomorrow is the drought. We are entering the fourth summer of drought in my state which began in the fall of 1987. Many farmers held on the first couple of years because they had some grain in their bins and prices were good. Now, little is left in their bins and what grain they do have to sell brings a very low price.

What drought assistance measures can you implement this summer and for the remainder of the year if the drought should persist?

Answer: Although the discretionary disaster payment provisions for wheat, feed grain, upland cotton and rice producers were authorized by the 1985 and 1990 Acts, the authority was not implemented because crop insurance, for which the Federal Government subsidizes 30 percent of the premium, has been available to producers. We continue to believe that either a standing disaster program or a viable insurance program should be available for producers, but not both.

Producers prevented from planting upland cotton, rice, wheat, or feed grains because of drought or other natural disasters may earn deficiency payments for those crops under the 0/92 provision by designating the acreage as conserving use instead of planting the crop. For cotton and rice the prevented plantings must equal at least 50% of the maximum payment acres. In addition producers that do not plant upland cotton, rice, wheat or feed grains and are not interested in designating conserving use acres to the crop can forego deficiency payments and can protect the respective crop's base with a zero acreage report, as long as the normal plantings of fruits and vegetables are not increased.

The Farmers Home Administration--FmHA--makes and guarantees farm ownership and operating loans. This assistance is available to farmers who are unable to obtain adequate commercial credit at prevailing rates and terms.

The Agricultural Stabilization and Conservation Service--ASCS--advises me that there are several other programs that it administers that are currently avaliable to producers. The information from ASCS follows:

The Commodity Credit Corporation livestock feed programs are avaiable to assist producers who have suffered a substantial loss of livestock feed normally grown by the producers for their livestock. These programs are available by request of the Govenor or the local county Agricultural Stabilization and Conservation--ASC--committee.

Determinations for emergency haying and grazing of acreage designated as acreage conservation reserve and conserving use acreages are made on a county-by-county basis, by the Deputy Administrator, State and County Operations--DASCO--, ASCS. Based on requests submitted by county ASCS committees and concurred in the State ASC committees, DASCO determines whether the occurrence of a natural disaster is causing a shortage of hay and pasture production. When conditions warrant such emergency use of this acreage, such requests are normally answered within 24 hours after the request is received by DASCO.

In 1990, because of the impact of drought conditions on the availability of livestock feed in several isolated parts of the country, haying and grazing of Conservation Reserve Program acreage was permitted under carefully prescribed conditions. This effectively targeted areas which continued to experience forage emergencies while still safeguarding the environment.

The Emergency Conservation Program--ECP--provides emergency funds for sharing with farmers and ranchers the cost of restoring to productive use farmland seriously damaged by natural disasters.

Under the drought ECP, cost-sharing is used to provide emergency water for livestock and to provide emergeny water for existing irrigation systems for orchard and vineyards.

Question: At our hearing with ASCS earlier this year, I asked for estimates of losses as a result of 1990 disasters on a State-by-State basis and was told that the Department will work on it. But the response did not include that information.

Are you working on that information and when can I expect it?

Answer: Unfortunately there are no reliable estimates of losses on a State-by-State basis. In both 1988 and 1989, only when producers appeared at the county offices to file claims for disaster payments were we able to guage accurately the extent of losses by State. For 1990, the weather summary published on January 15, 1991 provides information for some States where abnormal weather was evident. However, the information is mostly qualitative in nature and provides little help in quantifying crop losses.

The publication entitled "Crop Production 1990 Summary" also provides information on growing conditions by State, as well as State-by-State production figures for recent years. It is likely that individual producers may not have experienced disasters in 1990. In general, yields appear to be above those of the previous two years. On a national basis, 1990-crop yields for wheat, corn, barley, upland cotton, dry beans, soybeans and sunflowers were the first-, second-, or third-highest of the 1981-1990 period.

Copies of both the "1990 Weather Review" and the "Crop Production 1990 Summary" will be sent to your office separately.

QUESTIONS SUBMITTED BY SENATOR BUMPERS

MILK MANAGEMENT INVENTORY PROGRAM STUDY

Question: When ASCS testified before this subcommittee last month, I raised a question concerning actions USDA was taking to improve the financial stability of dairy farmers. I made specific recommendations including an acceleration of the report USDA was to file with Congress by August 1st on a supply management program. The response I received, on April 15, was that acceleration would not be likely. However, I learned that on or about that same day, USDA announced that the timetable had been accelerated to June 15. I am very pleased that you have taken this action, although I was a little concerned about the apparent lack of communication within USDA on this issue. Can you explain why I was given misleading information or can you describe safeguards you will put in place to ensure the the Congress has accurate up-to-date information from the Department?

Answer: Given the current situation with regard to dairy prices, the pressure to get the milk management study completed has been steadily increasing. Although consideration had been given to the possibility of accelerating the dairy study timetable, at the time that ASCS testified before this

subcommittee in early March, the agency's response probably reflected the less intense dairy situation at that time.

Since then the environment surrounding the completion of the dairy study has changed significantly. On April 10, I made an announcement that the dairy policy study process would be accelerated. The economic distress of dairy producers and the need for more timely action to assist the dairy community were the underlying reasons for my decision. The accelerated timetable requires the study and notice to be published in the Federal Register by May 15, which will be followed by a 15-day public comment period. During the first part of June we intend to review the public comments and have the final study and recommendation submitted to the Congress by June 15. It appears that the information you were given was correct when it reached the final clearance at the Department but was then overtaken by events before it reached you.

EMERGENCY DAISY ASSISTANCE

Question: Because of the imminent peril of dairy farmers in my state and elsewhere, I supported efforts by Senator Leahy to provide emergency assistance through a provision in the Supplemental Appropriation Bill that would increase prices paid to Class I fluid milk producers to the level they received in August 1990. Although this measure would have provided only temporary relief, I felt it would have given farmers a cushion of security until other actions taken by the Department could be put in place.

Although that measure passed the Senate, it failed in Conference due largely to a veto threat by the administration based on projections that consumer prices would increase by approximately $.40 per gallon of milk.

Since consumer prices did not fall after August 1990 by an amount anywhere near the increase predicted by the administration, could you explain the rational for the threatened veto?

Answer: The Administration opposed the dairy provision in the Supplemental Appropriations Bill for several reasons. First, the Administration opposes re-opening of the 1990 Farm Bill. The dairy provision clearly would have fallen into that category. Second, the provision would have resulted in increased costs to consumers. This increase would have fallen disproportionately on the poor. The provision also would have increased Commodity Credit Corporation dairy program budget outlays and would have resulted in an increased cost to food assistance programs.

Question: Could you provide this subcommittee with a suggestion of the direction the Department will take to deal with the current dairy crisis?

Answer: I have advanced the time schedule for completion of the Milk Inventory Management report to Congress. It now will be delivered by June 15, rather than the August 1 date specified in the Food, Agriculture, Conservation, and Trade Act of 1990.

In addition, we are studying administrative options of a more immediate nature.

GATT NEGOTIATIONS

Question: American farmers have become more and more aware of the role they must play in foreign markets. Late last year, the GATT negotiations of the Uruguay Round were stalled because of the unwillingness of the European Community to consider relaxation of their very highly subsidized farming policies. Farmers with whom I have talked are also concerned that the U.S. has unilaterally disarmed our own farm support program. As you recall, the spending levels for farm programs in last year's budget agreement were loosely tied to some success at GATT. Frankly, farmers are concerned that GATT may fail to reduce the subsidies of our competitors yet our government will not step back in and increase agriculture's share of the budget. I hope you will work closely with Ambassador Hills during the resumed GATT negotiations to the extent that the interests of American farmers and their families are adequately represented in these talks. Do you care to respond?

Answer: The interests of the American farmer are our principal concern in negotiating a new GATT agreement. Our analysis shows that although there will be some adjustments, U.S. agriculture will benefit greatly from a liberalized global trading system. We have repeatly stated and demonstrated that we will not accept a "bad agreement" for U.S. agriculture under any circumstances, and further, there will be no Uruguay Round agreement without an agriculture agreement.

TRADE CONCERNS

Question: Trade concerns of our farmers are not centered exclusively with the European Community. Continuing questions of the countervailing duty on pork from Canada and the inability for U.S. farmers to penetrate the Japanese rice market are of great concern to farmers in Arkansas and elsewhere. Earlier, I spoke on the floor of the Senate in dire protest of the treatment of Americans who were simply trying to display rice at a Tokyo trade show and were threatened with prison. Would you care to comment on any of these trade issues or suggest what steps the Department may take to improve these conditions?

Answer: As you are undoubtedly aware, both President Bush and I expressed strong discontent with our Japanese counterparts over the handling of the rice display incident. We are very concerned that the Government of Japan's strong reaction in this case may reflect an inflexible attitude in the Uruguay Round of GATT negotiations. That Japan chose to react in such a negative way to what should be a very positive activity, i.e., the educational display of U.S. rice at an international food show, is most unfortunate and only serves to highlight how rigid and unjustified their existing rice policy is. Nevertheless, we have chosen to stay on the high road and focus on the real issue at stake here: gaining meaningful access to the Japanese rice market as part of a successful Uruguay Round agreement. We will

continue to make this one of our highest priorities within the context of the Round.

Concerning the U.S. countervailing duty--CVD--on pork from Canada, an extraordinary challenge committee was formed on April 15, to review the actions of a Free Trade Agreement--FTA--dispute settlement panel which had earlier ruled against the interests of U.S. pork producers. We support this extraordinary challenge. Such mechanisms are necessary if the U.S.-Canada FTA is to continue to enjoy the support of U.S. agriculture producers.

ASCS POULTRY CARCASS COMPOST FACILITIES

Question: During consideration of the FY 1991 Supplemental Appropriation Bill, this subcommittee included report language asking ASCS to consider changing the production history period from five years to one in order to be eligible for cost-share assistance to construct poultry carcass compost facilities. The language also provided that this exception would only apply if the construction of such a facility would result in improved water quality.

These facilities are a new technology that has great promise to improve water and overall environmental and health standards. As you know, Arkansas is the leader in this country in broiler production and this new technology can be an extremely useful tool to help producers who want to stay within the water quality requirements of the state and EPA.

Mr. Secretary, we must look beyond today and keep in mind that our environment must be protected for the future and I believe steps we can take today to help achieve the goal of environmental protection should receive our most careful attention. Many farmers became poultry producers before this technology was known and simply because they have noe met an arbitrary number of years test they should not be denied eligibility of a program that could be of great help to everyone.

I understand ASCS is still reluctant to relax the production period requirement for assistance with this technology. Would you personally review Department and agency policy on this matter in light of the fact that this is a new technology that will help farmers, already in production, maintain the highest levels of water quality? I think you will agree that the benefits of a change in current policy will accrue to far more than simply the present applicants.

Answer: I have reviewed our policy regarding cost-share assistance for poultry carcass composting facilities under the Agricultural Conservation Program--ACP--practice WP4, Agricultural Waste Control Facilities. In 1990, when a poultry carcass composting component was added, the eligibility was extended to operations having a production history of at least 5 years because those operations may not have had an opportunity to implement pollution control practices before the problems became known.

We believe that new enterprises should assume the responsibility of ensuring that their operations do not cause pollution problems. Those kinds of problems, which often occur with a livestock or poultry operation, should be anticipated when planning to start or enlarge the business. Any required preventive measure should be installed as part of the initial capital investment for the new operation. Additionally, because of limited ACP funding, it is difficult to assist all producers and by targeting older operations we hope to achieve more environmental benefit for each federal dollar spent because those faclities were developed before this technology was available.

The potential for animal waste to cause environmental problems has been well known for several years. Therefore, we continue to believe that operations started within the last 5 years should not be eligibile under the ACP for cost-share assistance under practice WP4.

CONSERVATION RESERVE PROGRAM

Question: A year ago, historic floods devastated many acres of prime farmland along the Arkansas and Red Rivers. Last summer, a delegation from USDA toured those areas and got a first hand sense of how terrible those losses were.

Not all the land destroyed was cropland. Thousands of acres of excellent pastureland were also reduced to miles and miles of sand and silt that resembled more an ocean side beach, or as my Senate colleague David Pryor once described: the farm side of the moon, than the prime farmland it had once been.

As I recall, during the visit by the USDA officials, discussions were held on the subject of how best to assist farmers whose pasturelands were so severely degraded. I understand that modifications of the CRP program were proposed that would allow such lands to be enrolled in the program.

The 1990 Farm Bill gives you express authority to enroll marginal pasture land in the CRP, yet when the final rules were published last week, the requirement of a cropping history remains. As a result, farmers along the Arkansas and Red Rivers and in many other parts of the country who were counting on this program have been left with nothing.

I can understand your attention to the budget considerations of such decisions. However, in this case there are also considerations of improved water quality, wildlife habitat, soil preservation, and the need of many farmers to restore their land to a level of acceptable production capabilities.

Would you please explain why these lands were left out of the CRP program and would you reconsider their inclusion? Did all USDA agencies concur in the decision to deny this eligibility and if not, what agencies did not agree and what were their reasons?

Answer: Reasons for excluding marginal pastureland from the CRP were set forth in the preamble to the final rule published in the April 19, 1991 Federal Register. Basically, conservation with respect to marginal pasturelands can be achieved more efficiently under cost-sharing programs such as the America the Beautiful program provided for in the 1990 Farm Bill and the Agricultural Conservation Program. Both of these programs would be more cost effective in addressing conservation problems on pasturelands.

Assistance in developing the CRP regulations was provided by an interagency ad hoc committee that closely examined a wide range of issues affecting the program. As part of this process, the committee presented options on the question of whether marginal pasturelands should be enrolled in the CRP. In the final analysis, all the decisions reflected in the final CRP rules were made by those USDA policy officials with direct responsibility for the program, including the Under Secretary for International Affairs and Commodity Programs and the Administrator of ASCS.

IMPROVIVG RURAL AREAS

I noted that the budget again this year greatly reduces the role of REA in providing needed electrical and telephone service to rural ares. I read with interest the intent of REA to apparently consider it's mission either off-track or simply complete.

The REA programs were put in place due to the fact that in many rural areas electrical and telephone service did not exist. Mr. Secretary, I would like to point out that the last three REA loans in my state were not to improve existing telephone service, they were used to bring in hundreds of families who had never owned a telephone. I don't need to tell you, during these times, how critically important that new service is to them.

Question: Do you agree that the REA mission is off-track and would you comment on whether you feel larger companies would continue to expand into sparely populated rural areas without the historic services of REA?

Answer: REA has made a significant contribution to rural America. The importance of having electric and telephone services available either for attracting business and industry or serving farms and rural residents simply cannot be overstated. However, the financial needs relating to these services are decidedly different than those that called for REA's historic role. Today, very few rural areas are without electric and telephone services. REA maintains data that shows 98.8 percent of farms have electric service and 96.0 percent have telephone service. Most of the cooperatives and other entities that provide these services are financial sound and able to borrow from commercial sources. They don't need to rely on the Federal Government as a source of funds, they can obtain funds from the private sector, especially with the assistance of a federal guarantee. The Administration's proposal for REA would retain a "safety net" of direct loans for those borrowers who require such

assistance, and shift to guaranteed loans where private sector financing is available. It would keep the REA mission "on-track" and doesn't abandon any lines of service to rural America.

Question: Mr. Secretary, I am very interested in rural development and I believe USDA has a very important role to play. A few years ago, I introduced legislation which established the Lower Mississippi Delta Developmwnt Commission which has now reported to the Congress and the President on ways to help turn around generations of poverty in the Delta Region.

More recently, Senator Cochran and the other Senators from the Delta States have joined with me in the creation of a Senate Delta Caucus. I look forward to working with you as we proceed to develop strategies to improve life in that neglected part of our country. Would you provide us some insight into your position to improve life in rural areas?

Answer: Rural businesses fail and communities fall apart when people leave smaller towns in search of employment. In my mind's eye, the rural areas of America have to be made attractive for industrial location and expansion so that there will be enough jobs to keep people there. The work ethic of farmers and other rural residents can be an important factor in attracting industry. It has worked in the district I represented while in Congress. The newest Japanese automobile plant in the country -- a joint venture between the Chrysler Corporation and Mitsubishi -- located there, in part, because of an abundant supply of good workers. Industrial jobs can also help in keeping families on the farm by providing additional income to support a part-time or weekend farming operation.

To successfully deal with rural development, I believe there must be coordination of all agencies of Government that have anything to do with development in general, and industrial location in particular, including the location of Federal facilities. We must work together to keep the rural way of life a very important part of the fabric of American society.

Question: How do you see the new Rural Development Administration playing a role in those efforts?

Answer: The 1990 Farm Bill requires that certain programs of the Farmers Home Administration be transferred to a new Rural Development Administration. Other program may also be considered for transfer to the new agency. I support the creation of the Rural Development Administration because it will improve our rural development program.

We will strive, to see that these programs transferred to RDA are administered in the most efficient manner possible. The programs, include water and waste loans and grants, business and industry loans and loan guarantees, community facility loans and loan guarantees, and rural development grants provide essential assistance for rural development.

ARS IN ARKANSAS

Question: During testimony before this subcommittee earlier this year, I raised the question of the presence, or lack of presence, of the ARS in Arkansas. I would like you to comment on the apparent disproportion of ARS personnel in Arkansas as opposed to other States and land grant institutions.

Answer: The establishment of Federal research centers and laboratories has evolved throughout the history of this Department. Each of these laboratories plays a significant role in solving broad regional, national and international problems. The geographic location frequently does not dictate the kinds of research carried out.

As you are aware, the Land-Grant system was established to meet the agricultural needs of each State. ARS collocates scientists on a number of land-grant campuses where there is a mutual interest and support. Some States have no ARS scientists. There are twelve States, including Arkansas, where ARS has less than ten scientists. However, the agency has informed me of plans to hire additional scientists for a cooperative venture with the University of Arkansas that will lead to significant contributions to the poultry industry.

RICE RESEARCH

Question: During the earlier testimony, I also questioned the level of ARS support for the Rice Research Center at Stuttgart, Arkansas, I was told that ARS was not in a position to increase their rice research effort. Would you please look into this matter for me and let me know the current status of ARS rice research and the manner in which funding has been allocated among the various ARS rice research facilities?

Answer: While we are not in a position to increase rice research at Stuttgart, Arkansas, at this time, we still feel we have a good rice research program at the location and at the other locations as well. ARS conducts rice research at 16 different locations. There is an effort to integrate all research into a comprehensive national rice research program.

Funding for rice research by location provided by ARS follows:

Location	FY 1991 Estimate
Stuttgart, AR	$ 375,600
Albany, CA	315,500
Davis, CA	161,000
Gainesville, FL	228,700
Savannah, GA	108,000
Aberdeen, ID	171,200
Manhattan, KS	55,000
New Orleans, LA	910,800
Beltsville, MD	182,400
Frederick, MD	144,100

Ithaca, NY	38,600
Beaumont, TX	921,600
College Station, TX	166,500
Madison, WI	65,600
Mayaguez, PR	23,300
St. Croix, VI	23,000
TOTAL	$ 3,890,900

PEER PANELS

Question: During the earlier testimony, I also questioned the peer review process for the Cooperative State Research Service--CSRS--competitive grants. The response I received indicated that representatives of institutions, who serve on peer review panels, cannot act on applications from that institution. The point, however, is the overall makeup of the panels themselves.

Would you provide me with information that describes who sits on these peer review panels, what institutions do they represent, and what levels of funding have those institutions received over the past five years. Would you also provide mewith information regarding the number of smaller sized institutions of higher learning that are part of the peer review panels? Finally, would you consider restructuring the composition of peer review panels to ensure an equal representation of large and small institutions?

Answer: The peer review panels for the Competitive Research Grants Program and the new National Research Initiative Competitive Grants Program are composed of scientists from numerous institutions. Peer panel members are chosen based upon their training and experience in relevant scientific or technical fields. The number of panelists coming from a state generally indicates the size of the pool of available state scientists. Larger state pools provide the program with a greater opportunity to locate panelists with the necessary expertise to review proposals in specific scientific disciplines. The number of research proposals submitted from a state also tends to be driven by the number of scientists within a state. The number of grant awards is related to the number of submitted proposals. Specific information on funding and peer panel members provided by CSRS follows:

U. S. Department of Agriculture
Competitive Research Grants Office/National Research Initiative Competitive Grants Program

STATES	1986-1990 Support ($)	1986-1990 No. of Panel Members
USDA, AGRICULTURAL RESEARCH SERVICE	9,706,828.00	98
U.S. DEPARTMENT OF ENERGY	1,178,000.00	1
USDA, FOREST SERVICE	1,100,028.00	29
ALABAMA		
Auburn University	846,764.00	16
Tuskegee University	100,000.00	2
University of Alabama	570,000.00	12
Alabama A&M University	0.00	2

ALASKA		
University of Alaska	100,000.00	0
ARIZONA		
Arizona State University	255,000.00	2
Northern Arizona University	320,000.00	2
University of Arizona	3,992,729.00	20
ARKANSAS		
University of Arkansas	683,456.00	8
CALIFORNIA		
J. N. Bailey-Serres	33,000.00	0
Chiron Corporation, Emeryville	50,000.00	0
Patrick J. Neale	50,750.00	0
Lois I. Rodrigo	66,000.00	0
Salk Institute for Biological Studies	290,000.00	1
San Diego State University Foundation	130,000.00	0
San Jose State University	120,000.00	1
Scripps Clinic & Research Fdn.	310,300.00	1
Staford University	1,415,000.00	4
University of California	23,440,811.00	94
Zoological Society of San Diego	70,000.00	1
Advanced Genetics Sciences	0.00	3
California Forest Product Laboratory	0.00	1
Carnegie Institute of Washington	0.00	5
Sandoz Corporation Protection	0.00	1
Zeocon Research Institute	0.00	2
COLORADO		
Colorado State University	1,589,188.00	25
University of Colorado	370,996.00	0
Federal Land Bank	0.00	1
Solar Energy Research Unit	0.00	1
CONNECTICUT		
University of Connecticut	1,029,736.00	9
Wesleyan University	150,000.00	0
Yale University	546,000.00	10
DELAWARE		
Central Research and Development	0.00	2
E.I. du Pont de Nemours Co., Inc.	100,000.00	6
University of Delaware	100,000.00	6
DISTRICT OF COLUMBIA		
Carnegie Institute of Washington	262,000.00	0
Georgetown University	184,393.00	3
National Academy of Sciences	6,000.00	0
Agency for International Development	0.00	3
International Life Sciences Institute	0.00	2
Assoc. of American Veterinary Medical Colleges	0.00	3
Walter Reed Army Medical Center	0.00	1
George Washington University	0.00	1
National Food Processors Association	0.00	1
FLORIDA		
Florida State University	425,000.00	3
Tampa Bay Research Institute	220,000.00	0
University of Florida	6,204,913.00	39
University of South Florida	234,000.00	3
University of Miami	80,000.00	0
Insect Attractants, Behavior and Basics	0.00	1
NASA	0.00	1

GEORGIA		
Emory University	73,775.00	1
Georgia Insititute of Technology	100,000.00	0
University of Georgia	3,004,017.00	32
Coastal Plain Experiment Station	0.00	1
Fort Valley State College	0.00	3
International Paper Company	0.00	1
University of Forest Resources	0.00	1
HAWAII		
University of Hawaii	370,300.00	3
IDAHO		
University of Idaho	608,800.00	5
ILLINOIS		
Illinois State University	260,000.00	0
Northwestern University	424,000.00	2
Northern Illinois University	190,000.00	0
Southern Illinois University	305,000.00	2
University of Chicago	848,900.00	3
University of Illinois	7,137,832.00	46
Argonne National Laboratory	0.00	2
College of Veterinarian Medicine	0.00	1
Illinois Natural History Survey	0.00	1
INDIANA		
Fort Wayne State Developmental Center	140,471.00	1
Indiana University Foundation	302,000.00	0
Purdue University	5,132,873.00	32
University of Notre Dame	100,000.00	0
IOWA		
Iowa State University	3,926,495.00	32
University of Iowa	355,000.00	4
Garst Seed Company	0.00	1
Pioneer Hybird International	0.00	1
KANSAS		
Kansas State University	3,169,185.00	15
University of Kansas	175,000.00	1
University of Kansas Medical Ctr.	312,000.00	0
Sanofi Animal Health, Inc.		1
KENTUCKY		
University of Kentucky	2,730,760.00	12
Randy Hunt	66,000.00	0
Western Kentucky University	0.00	1
LOUISIANA		
Louisiana State University	1,382,634.00	12
Hillfarm Research Station	0.00	1
Pennington Biomedical Research Center	0.00	1
MAINE		
University of Maine	677,230.00	4
MARYLAND		
American Society for Cell Biology	3,000.00	0
Bionetics Research, Inc.	194,587.00	0
Fedn. of American Societies for Expt. Biol.	14,800.00	0
Henry Jackson Fdn for the Advance. of Military Med	6,000.00	0
Johns Hopkins University	297,000.00	4
University of Maryland	1,874,135.00	14
Division of Cancer Prevention & Control	0.00	1
Farm Credit Bank	0.00	1
Society for American Foresters	0.00	1

MASSACHUSETTS		
Amherst College	370,000.00	0
BBN Laboratories Inc.	49,000.00	0
Boston University	346,544.00	0
Harvard University	662,000.00	3
Marine Biological Laboratory	175,000.00	0
Massachusetts General Hospital	348,000.00	0
Massachusetts Institute of Technology	411,000.00	1
Northeastern University	50,000.00	1
Tufts University	321,100.00	1
University of Massachusetts	3,004,682.00	16
Williams College	85,690.00	1
Worchester Foundation for Experimental Biology	200,000.00	0
Biotechnical International	0.00	3
University of Lowell	0.00	1
MICHIGAN		
Michigan State University	7,720,926.00	35
Michigan Technological University	217,400.00	4
University of Michigan	1,785,600.00	5
Wayne State University	80,000.00	0
Managing Decisions, Inc.		1
MINNESOTA		
Carlton College	177,000.00	0
Molecular Genetics, Inc.	195,000.00	0
St. Mary's College	90,000.00	0
University of Minnesota	4,048,025.00	41
Mayo Clinic	0.00	2
Minnetonka	0.00	1
Natural Resources Research Institute	0.00	1
MISSISSIPPI		
Mississippi State University	342,000.00	14
Alcorn State University	0.00	1
Delta Branch Experiment Station	0.00	1
Mississippi Forest Products Lab	0.00	2
MISSOURI		
Jeffery A. Hall	60,000.00	0
Northeast Missouri State University	65,000.00	0
University of Missouri	4,221,613.00	35
Washington University	1,074,000.00	8
American Assembly of Collegiate	0.00	1
6 Fox Meadows	0.00	1
Lincoln University	0.00	1
Monsanto	0.00	3
State Forestry Conservation Department	0.00	1
MONTANA		
Montana State University	443,000.00	4
University of Montana	100,000.00	0
Wood Science Laboratory, Inc.	0.00	1
NEBRASKA		
University of Nebraska	2,856,845.00	19
Creighton University	0.00	1
NEVADA		
University of Nevada	818,000.00	4
NEW HAMPSHIRE		
Dartmouth College	330,408.00	2
University of New Hampshire	507,000.00	5

NEW JERSEY		
Rutgers University	2,582,500.00	11
Univ. of Medicine and Dentistry of New Jersey	449,188.00	0
EniChem Americas, Inc	0.00	3
Hoffman-LaRoche	0.00	1
Nabisco Brands	0.00	1
Roche Institute	0.00	1
Princeton University	0.00	1
NEW MEXICO		
New Mexico State University	717,000.00	8
University of New Mexico	0.00	1
Los Alamos National Lab	0.00	2
NEW YORK		
Albany Medical College of Union University	129,490.00	0
Boyce Thompson Institute	1,439,895.00	2
Cold Spring Harbor Laboratory	183,000.00	2
Cornell University	10,209,762.00	33
City University of New York	345,000.00	0
New York University	100,000.00	0
North Shore University Hospital	152,388.00	0
Rockefeller University	190,000.00	0
Rensselaer Polytechnic Institute	375,000.00	1
Skidmore College	5,000.00	0
St. Luke's-Roosevelt Inst. for Health Sciences	60,000.00	0
State University of New York	1,458,748.00	9
Syracuse University	130,000.00	0
The Population Council, Inc.	200,000.00	0
NEW YORK		
Union College	69,000.00	0
University of Rochester	180,000.00	0
American Embassy-Europ. Parasite Lab	0.00	1
Brookhaven National Lab	0.00	2
Columbia University	0.00	2
International Paper Company	0.00	1
Manhatten College	0.00	1
New York Department of Health	0.00	1
Plattsburgh State Univ. College	0.00	1
St. Lawrence University	0.00	1
NORTH CAROLINA		
Bowman Gray School of Med. of Wake Forest Univ.	200,000.00	1
Duke University	348,000.00	3
East Carolina University	124,000.00	0
North Carolina State University	4,130,295.00	37
University of North Carolina	520,000.00	4
William R. Marcotte, Jr.	68,500.00	0
NORTH DAKOTA		
North Dakota State University	454,192.00	8
University of North Dakota	120,000.00	0
OHIO		
Battelle-Kettering Research Foundation	240,000.00	0
Case Western Reserve University	487,400.00	5
Medical College of Ohio	120,000.00	0
Ohio State University	3,993,648.00	29
University of Cincinnati	600,000.00	3
University of Dayton	158,000.00	1
Mercedes A. Ebbert	66,000.00	0

OKLAHOMA		
Oklahoma State University	1,475,220.00	14
University of Oklahoma	326,000.00	1
Oklahoma Medical Research Foundation	0.00	2
Noble Foundation	0.00	1
OREGON		
Oregon Graduate Center	110,000.00	0
Oregon Health Sciences University	110,000.00	0
Oregon State University	4,283,092.00	30
Portland State University	165,000.00	3
University of Oregon	500,000.00	1
Consultant	0.00	2
PENNSYLVANIA		
Carnegie Mellon University	125,000.00	0
Drexel University	100,000.00	0
Lehigh University	117,000.00	2
Medical College of Pennsylvania	120,000.00	1
Monell Chemical Senses Center	86,000.00	0
Pennsylvania State University	2,992,889.00	28
Swarthmore College	65,000.00	0
Temple University School of Medicine	650,000.00	1
University of Pennsylvania	450,000.00	6
Wistar Institute	65,100.00	2
Thomas Jefferson University	371,923.00	0
Albert Einstein Medical Center	0.00	2
Hersey Foods Technical Institute	0.00	2
RHODE ISLAND		
Brown University	364,000.00	2
Gordon Research Conferences	102,100.00	0
University of Rhode Island	230,000.00	0
SOUTH CAROLINA		
Clemson University	243,548.00	9
University of South Carolina	408,602.00	4
College of Charleston	0.00	2
South Carolina State University	0.00	1
Westvaco Corporation	0.00	2
SOUTH DAKOTA		
South Dakota State University	443,471.00	5
TENNESSEE		
University of Tennessee	1,368,290.00	9
Vanderbilt University	302,000.00	1
Meharry Medical College	0.00	1
Memphis State University	0.00	3
Tennessee Technological University	0.00	1
TEXAS		
Baylor College of Medicine	550,000.00	0
Texas A&M	4,470,148.00	44
Texas Tech University	570,205.00	3
University of Houston	94,000.00	0
University of Texas	1,018,249.00	7
University of Texas Health Science Center	155,000.00	0
University of Texas Medical Branch	373,222.00	2
William Marsh Rice University	147,272.00	1
Consultant	0.00	1
Prarie View A&M University	0.00	1

UTAH		
Brigham Young University	388,925.00	3
University of Utah	468,612.00	1
Utah State University	882,050.00	14
VERMONT		
University of Vermont	332,724.00	1
VIRGINIA		
University of Virginia	95,000.00	0
Virginia Commonwealth University	50,000.00	1
Virginia Polytechnic Inst. & State University	1,644,100.00	25
Applied Systems Technology Inc.	0.00	1
American Home Economics Association	0.00	1
College of William and Mary	0.00	1
Hampton University	0.00	1
International Agriculture	0.00	1
VA/MD Regional College of Veterinary Medicine	0.00	1
WASHINGTON		
Washington State University	3,969,975.00	23
University of Washington	1,588,100.00	13
Eastern Washington University	0.00	1
Immunex Corporation	0.00	1
Wyerhaeuser Corporation	0.00	5
Zymogenetics, Inc.	0.00	2
WEST VIRGINIA		
West Virginia University	452,025.00	9
WISCONSIN		
Marquette University	305,000.00	1
Medical College of Wisconsin	580,000.00	0
University of Wisconsin	9,669,599.00	35
Agracetus	0.00	2
PFC Corporation	0.00	1
Wisconsin Department of Natural Resources	0.00	1
Institute of Paper Chemistry	0.00	1
WYOMING		
University of Wyoming	368,956.00	2
OTHER FEDERAL AGENCIES		
Center for Space & Advanced Technology	0.00	1
DHHS, National Institute of Drug Abuse	0.00	1
Federal Land Bank	0.00	1
Food and Drug Administration	0.00	3
NASA	0.00	1
National Institutes of Health	0.00	4
National Cancer Institute	0.00	1
Smithsonian Environmental Research Center	0.00	1
Uniformed Services Univ. of Health Sciences	0.00	1
US Army Medical Research Institute	0.00	5
US Environmental Protection Agency	0.00	3
US Fish and Wildlife Service	0.00	1
US Geological Survey	0.00	1
US Grain Marketing Research Lab.	0.00	1

FmHA EMERGENCY LOANS

I have followed closely the policies of the Farmers Home Administration in the delivery of credit services to our nation's farmers. In 1990, many farmers in Arkansas and elsewhere suffered tragic losses due to severe weather conditions. Although the disaster programs of 1988 and 1989 were not extended

to losses in 1990, this subcommittee did appropriate $600,000 for the FmHA Emergency Loan Program.

As of April 16th, FmHA Administrator La Verne Ausman testified before this subcommittee that approximately $40 million in emergency loans had been obligated. I have been told that certain counties in Arkansas, where losses were severe, have closed no emergency loans and, in fact, farmers have been reportedly facing administrative obstacles in getting applications approved and have to rely on the appeals process for relief although those delays have been costly.

Question: What amount of emergency loan funds have been obligated to date and do you feel that amount is an appropriate reflection of the need present in the farming community?

Answer: As of April 22, 1991, FmHA had obligated $49 million for direct emergency loans. The program operates within a number of limitations that are imposed by law. For example, there is a 30 percent loss requirement on eligibility, loan amounts are limited to 80 percent of actual loss applicants must be family farmers who cannot obtain credit elsewhere, and eligibility is limited to designated disaster areas. Granted, more loans would be obligated without these limitations. But past experience has indicated that the limitations are necessary to curb program abuses and provide reasonable assurances of loan repayments.

QUESTIONS SUBMITTED BY SENATOR HARKIN

PSEUDORABIES ERADICATION

Question: Since the Department has approved rules for the interstate shipment of swine where PRV vaccine is used, and it is possible to test animals to differentiate between field strain infection and vaccinated animals, will APHIS encourage the use of federal funds for PRV differentiable vaccines in approved herd cleanup plans?

Answer: We encourage animal health officials in all States to carefully evaluate the need to use pseudorabies vaccines within their States. The President's budget does not request funds specifically for pseudorabies differential vaccines.

Question: If not, why not?

Answer: Generally, it is the Department's policy that the herd owner should expect to pay the major portion of vaccine costs. There is evidence that herd performance will be increased to an extent which justifies the cost of vaccination. However, Federal funds are provided for pilot projects. I am told the Mercer County, Ohio large herd clean-up project is an example of a pilot study in which Federal funds may be used to pay up to 50 percent of the clean-up costs, including the cost of vaccines.

Question: Were these vaccines not developed for use in the PRV eradication effort?

Answer: Yes, and we encourage herd owners to utilize pseudorabies vaccines to further National program goals.

Question: APHIS has on numerous occasions indicated that the PRV program is a prototype for new producer/government cooperative programs. However, when producers in states with specific needs or particular conditions bring suggestions for program implementation to APHIS, they have been told on most occasions that such changes cannot be considered. Why is that?

Answer: We rely heavily upon recommendations from the United States Animal Health Association--USAHA--Pseudorabies Committee Program Standards Subcommittee. Consequently, specific suggestions to improve the program should be submitted to the USAHA. We are confident that the USAHA will continue to carefully evaluate all industry proposals and refer to APHIS those recommendations which will enhance the efficiency of the national pseudorabies eradication program.

Question: It has been suggested to me that local veterinarians be given a greater role in assisting producers with PRV herd clean up efforts. Producers seem to be more comfortable working with their local veterinarian to develop a successful herd plan than with a state or federal regulatory veterinarian. Will APHIS support the idea of a greater role for local veterinarians in carrying out the PRV eradication program?

Answer: Yes, APHIS has always acknowledged the vital role that private veterinary practitioners play in the control and eradication of all animal diseases including pseudorabies. I understand that a recent survey revealed that approximately 80 percent of the U.S. swine producers utilize the services of a practitioner veterinarian.

Question: Could federal PRV funds be utilized more effectively, and might we generate more producer cooperation in the PRV eradication effort, if in expending federal PRV funds local veterinarians were given more of a role in education and herd cleanup work?

Answer: We agree that local veterinary practitioners are vital to eradication program success. I understand that most pseudorabies is spread through the purchase and/or sale of hogs. Veterinary practitioners, because of their unique standing in most rural communities, can and do have a major role in influencing public opinion and helping swine producers keep their herds free of pseudorabies.

Question: Has such a suggestion come to APHIS from the field?

Answer: I understand that leaders in the Iowa Pork Producers Association have recently suggested that federal funds be utilized to pay practicing veterinarians to write a herd cleanup plan and a lesser amount in subsequent years to

administer the initial plan. Such a plan is being considered for States like Iowa where the amount of time to write herd cleanup plans will exceed the time available by regulatory veterinarians.

Question: How could APHIS implement such a suggestion, and what would be the time frame for implementation?

Answer: I understand that APHIS is currently considering the National cost of various options for implementation of the Iowa Producer Initiative for herd cleanup plan payment. We are meeting with key State-Federal-Industry program leadership to ensure all States, including those which have not made this request, understand what will be affected if it is implemented.

Question: For some time there has been dissatisfaction in the pork industry with the share of the Federal PRV appropriation that is used for APHIS administrative and overhead expenses.

What percentage of Federal PRV eradication funds is currently being used to support the administration of the program?

Answer: APHIS has advised me that of the $6,554,000 appropriated to the pseudorabies program for FY 1991, approximately $956,000, or 14.6 percent, has been allocated for Agency and program support costs. Of this amount, $486,000, or 7.4 percent of the appropriation is being used for central program administration and/or services which includes Legislative and Public Affairs, Management and Budget, Office of the Administrator, Policy and Program Development, and Recruitment and Development. Another $469,000, or about 7.2 percent of the appropriation has been allocated for Veterinary Services--VS--program support which includes the Office of the Deputy Administrator, headquarters technical staff support; and the four VS regional offices located at Scotia, New York; Tampa, Florida; Fort Worth, Texas; and Denver, Colorado.

Question: What percentage of federal PRV eradication funds is used for testing and eradication activities within the states?

Answer: I understand that $5.1 million, about 78 percent, is being utilized for support of field surveillance and herd cleanup activities during FY 1991.

Question: How do these percentages compare to the analogous figures for other APHIS eradication programs such as brucellosis or screwworm eradication?

Answer: An Office of Inspector General study is comparing four similar program expense categories, including administrative support costs, with the funding allocation in the pseudorabies program for Fiscal Year's 1988, 1989, and 1990. We will be glad to share the results of that study once it is completed.

Question: What do APHIS cost estimates show as the cost for finding an infected herd using slaughter surveillance methods?

Answer: In States with low prevalence of pseudorabies, slaughter surveillance is a cost-effective technique to identifying the existence of an out-break of disease.

Question: How do those estimates compare to the cost of identifying infected herds through field testing of herds?

Answer: Field testing is the most cost effective surveillance program in those State or areas with a high prevalence of pseudorabies.

Question: If a state or area with a high incidence of PRV is in a cleanup process, should limited Federal funds be used for random surveillance as opposed to an organized, area-based effort to find new infected herds and clean them up?

Answer: In States or areas with a high prevalence of pseudorabies, a successful area based program effort must acknowledge the need to rapidly survey all herds within the survey area, quarantine herds found to be infected to ensure that swine from these premises do not spread the disease to other herds, implement herd cleanup plans in all herds found to be infected and lastly but very importantly, initiate randomized surveillance in all herds which are not found infected during the initial survey. As you can see, the type of surveillance depends upon the prevalence of the disease.

Question: Why does APHIS place so much emphasis on slaughter surveillance, regardless of the incidence of PRV in the state and the state's established procedures for PRV eradication?

Answer: We do not rely on slaughter surveillance regardless of the prevalence of the disease. I understand that currently the 5 States or areas with the greatest prevalence of pseudorabies per 1,000 herds are Iowa, Southern Minnesota, Nebraska, Indiana, and North Carolina. None of these States or areas have chosen to utilize slaughter surveillance in their pseudorabies surveillance programs. Other States, with a low prevalence of pseudorabies, generally use slaughter surveillance.

CATTLE INSPECTION SYSTEM

Question: What are the Department's current plans and intentions, including the expected time frame for USDA actions, regarding expansion or implementation of the streamlined inspection system for cattle--SIS-C?

Answer: We are still in the process of preparing its response to the NAS study. After it is completed, we will consider its plans for future SIS-C activities.

Question: How long does the Department intend to allow for Congressional review of its plans and report prior to any expansion or implementation of SIS-C?

Answer: We would welcome comments from Congress at any time once the report and implementation plan has been presented.

Question: What impact would expansion or implementation of SIS-C, as it is now structured, have on the number of FSIS inspectors assigned to cattle slaughter facilities, and specifically, what would be the impact of expansion or implementation of SIS-C on the number of inspectors assigned to the line to inspect carcasses as compared to the number of inspectors now assigned to line inspection?

Answer: Any impact on staff or the number of inspectors will not be known until we complete the implementation plans.

Question: The report of the National Academy of Sciences on SIS-C concluded that there is a vacuum of credible, reliable empirical evidence to assess whether SIS-C leaves beef more or less wholesome than when it is approved under traditional FSIS inspection. What is the Department's response to the NAS conclusion, and how will FSIS address this concern?

Answer: We are still preparing the response to the NAS. When it is completed, the report will be submitted to Congress.

Question: The NAS report concluded that there is no objective, scientific basis for the finished product standards in SIS-C. What is the Department's response to this conclusion, and how will FSIS address this concern?

Answer: Finished product standards will be addressed in the response to the NAS, which is still being prepared.

Question: The NAS report found corporate quality control and other related staffing inadequate to substitute for federal inspection personnel because of excessive turnover and inadequate qualifications, training and certification standards. How will FSIS address this NAS determination?

Answer: We have not completed the NAS response at this time.

Question: The NAS report concluded that the key requirement for SIS-C is industry's commitment to maintaining federal food safety standards. What protections do the SIS-C rules provide for personnel who report deficiencies or violations of food safety and quality control standards?

Answer: Final SIS-C rules will not be developed until the NAS response is completed and reviewed. We will, however, continue to encourage all employees to share their comments and concerns about SIS-C or any other program or policy.

Question: What actions has FSIS taken thus far to implement the NAS recommendations, and what are its plans and time frame for implementing the remainder of the recommendations?

Answer: The agency advises me that they have not taken any action thus far to implement the NAS recommendations. We will report in full on our plans and time frame for implementation in the response to NAS which is still being prepared.

Question: One of the primary recommendations of the NAS report was that FSIS work closely with and listen carefully to its inspectors in further diagnosing and correcting the problems with SIS-C seen in the pilot plants. Yet in a March 13 letter to this Committee, 21 inspectors said that the agency has not communicated with them at all concerning necessary changes to implement the NAS recommendations. What is the nature and extent of communication between FSIS management and FSIS inspectors in the pilot plants?

Answer: The agency advises me that its supervisors communicate directly with inspectors on a daily basis. Since we are still preparing the response to the NAS, there is no information to communicate to inspectors at this time as to any possible changes needed to implement SIS-C.

Question: Pilot plant inspectors contend that they have been restricted from inspecting for or recording violations on portions of organs not pre-selected by the company. Is this restriction on the activities of inspectors permissible under SIS-C rules?

Answer: We conduct random tests on finished product to ensure that company responsibilities are met. These tests are conducted at the discretion of the Department, not the company.

Question: Pilot plant inspectors report that the company is given up to five chances to pass a retest that will cancel the results when USDA inspectors flunk a sample. Is this a permissible practice under SIS-C rules?

Answer: A single test result may generate action to correct a process or rework product. However, a retest may be necessary to confirm that the results of the first test are representative of the process.

Question: Pilot plant inspectors report that there are no criteria for corrective action on beef lips, which go into products like lunchmeat. Are there no such criteria under SIS-C rules?

Answer: The agency advises me that corrective action criteria have been developed for beef by-products, including beef lips. These criteria were published in the proposed rule. We will review these criteria again before publishing the final rule.

Question: Pilot plant inspectors report an eightfold increase in head contamination at SIS-C pilots. Meat from cattle heads goes into ground beef and lunchmeat. Is this report accurate?

Answer: The agency advises me that the large number of finished product tests taken at this plant do not support this report. We would be glad to review any data or documented evidence of any increase in head contamination at SIS-C pilot plants.

Question: Pilot plant inspectors report that under SIS-C, they are no longer catching cases of diseases like EM and measles --tapeworms--, compared to catching as many as 30 cases per week at those plants before the SIS pilot began. Does FSIS have data responsive to this criticism of the SIS-C program?

Answer: The agency advises me that its study demonstrated that SIS-C is as effective at detecting disease conditions as is traditional inspection. Diseases like EM and measles continue to be detected under SIS-C.

Question: Pilot plant inspectors report that carcasses regularly fall on the floor and are placed back on the line without being retrimmed, although the floors are covered with filth. Is this a permissible practice under SIS-C?

Answer: Under both traditional inspection and SIS-C a carcass may occasionally fall to the floor. Under both systems the carcass must be trimmed to remove any contamination.

Question: What response does FSIS plan to this report?

Answer: The agency advises me that it has not received this report and cannot respond to it.

Question: Pilot plant inspectors report that around 30% of SIS-approved beef receives USDA approval despite having more than the estimated national average of 35 defects. Is this level of defects in approved beef acceptable under FSIS rules?

Answer: The agency advises me that the large number of finished product tests taken at these plants do not support this. The tolerance for defects under SIS-C is the national average, which is less than the tolerance for defects under traditional inspection.

Question: Does FSIS plan responsive action?

Answer: The agency advises me that it has not received this report and cannot respond to it.

Question: Pilot plant inspectors report that they no longer are allowed to check for diseases after the carcass is split open, which makes it impossible for them adequately to detect numerous disease symptoms. Are USDA inspectors not allowed to inspect carcasses after splitting under SIS-C?

Answer: The agency advises me that its study demonstrated that SIS-C is as effective at detecting disease conditions as is traditional inspection. After 100 percent of carcasses have been inspected, FSIS conducts random tests of split carcasses to ensure that the public receives only wholesome product.

Question: Will the Department assure this Committee that USDA inspectors will not face disciplinary action or reprisals for communicating their concerns about SIS-C to Congress, the public or organizations studying the system?

Answer: I assure you that this Department and FSIS will not take disciplinary action or any other detrimental step that would discourage employees from speaking up about SIS-C or any other program. We encourage all our employees to bring their comments and concerns to the attention of their supervisors so that we may resolve problems as quickly and efficiently as possible.

INTEREST ASSISTANCE PROGRAM

Question: I am very concerned about the availability of credit for farm families who are unable to qualify for commercial credit. Low prices for certain commodities, such as for dairy, have put severe strains on farm finances. At the same time, the shift from direct to guaranteed lending by FmHA has restricted the availability of credit through FmHA programs.

I would hope that the Department would carefully review its programs and policies to ensure that it is doing as much as it can to help farm families survive these times of reduced cash flow. Certainly one of the areas for such consideration is FmHA lending.

It does not appear that FmHA has authorized nearly enough for loans under this program. Congress intended that the Interest Assistance Program would be used to help two classes of borrowers: Those whose loans are maturing under the former Interest Rate Buydown Program and those who are unable to obtain direct FmHA loans.

I understand that FmHA has made an administrative decision to authorize only $482 million for loans under the Interest Assistance Program out of a total authorization of $3.6 billion for guaranteed loans.

With this allocation for the Interest Assistance Program, how will FmHA be able to provide interest assistance to borrowers who are now in the Interest Rate Buydown Program as well as those who will no longer receive direct loans?

Answer: The program level for the Interest Assistance Program reflects the agreements of the Omnibus Budget and Reconciliation Act of 1990--OBRA. FmHA tells me that it does not consider the program level to be a severe limitation. Of the $482 million available for subsidized guaranteed loans in 1991, $442 million is available for farm operating loans with interest assistance. OBRA requires that at least 30 percent of these loans go to former direct loan borrowers. To date about $40 million has been obligated. There should be no shortage of authority for interest assistance on guaranteed operating loans either for former borrowers or others through the end of the year.

Question: With this allocation for the Interest Assistance Program, how many, and what percentage of, existing borrowers in the Interest Rate Buydown Program will FmHA be able to serve in the Interest Assistance Program?

Answer: FmHA advises me that it is unable to project the number or percentage of borrowers in the Interest Buydown Program who will be served in the Interest Assistance Program.

Question: With this allocation for the Interest Assistance Program, how many, and what percentage of, existing FmHA borrowers with direct loans will FmHA be able to serve in the Interest Assistance Program?

Answer: FmHA predicts that while OBRA requires at least 30 percent of the borrowers served under the Interest Assistance Program be former borrowers, it is not able to project the total number or percent of such borrowers who will participate in the program. However, current obligations show about half the borrowers served under Interest Assistance Program are former direct program borrowers. As previously stated, the agency does not anticipate any shortage of funding for interest assistance on guaranteed operating loans.

Question: With this allocation for the Interest Assistance Program, how many, and what percentage of, new borrowers will FmHA be able to serve in the Interest Assistance Program?

Answer: It is my understanding that FmHA has not projected the number or percentage of new borrowers that will be served in the Interest Assistance Program. However, since level of guaranteed farm operating loans with interest subsidy assistance is three times the average program level for the Interest Buydown Program, the level of funding should be sufficient to meet the needs of farmers.

It appears that the amount of lending authorized under the Interest Assistance Program is limited to not more than the amount of lending to be shifted from direct to guaranteed lending under the 1990 budget reconciliation measure. The interest assistance program was crafted prior to the shifts to guaranteed lending under budget reconciliation, however, and as finally adopted was intended by Congress to serve both prior recipients of interest assistance and those no longer receiving direct loans.

Question: What is the justification for FmHA's severe limitation on lending under the Interest Assistance Program?

Answer: As stated, funding of the Interest Assistance Program was determined by OBRA. FmHA does not anticipate any shortage in funding for the program.

Question: Will FmHA reconsider its allocation to the Interest Assistance Program inasmuch as the need for interest rate assistance appears far to exceed the allocation?

Answer: Again, these allocations are determined by provisions of OBRA which reduce direct lending and increase interest assisted guarantees by specified amounts. FmHA anticipates no reason to reconsider the allocation of funds to the Interest Assistance Program.

DEBT SERVICE MARGIN

Question: FmHA's interim regulations require that borrowers show a debt service margin of 10 percent in order to qualify under the Interest Assistance Program. As noted above, the Interest Assistance Program was intended to serve borrowers no longer receiving direct loans and those with maturing Interest Rate Buydown Program loans. However, approximately 70 percent of FmHA's current borrowers with direct loans have a debt service reserve of less than 10 percent. Moreover, since the Interest Rate Buydown Program had no debt service margin requirement, many borrowers with loans maturing under that program are unlikely to meet the 10 percent debt service margin requirement.

In light of the policies behind FmHA lending and the characteristics of FmHA's clientele, what is the justification and legal basis for establishing a 10 percent debt service margin requirement for the Interest Assistance Program?

Answer: The Consolidated Farm and Rural Development Act provides general authority for the Secretary to prescribe the terms and conditions required to carry out the lending programs. The cashflow margin is considered an appropriate component of guaranteed lending criteria intended to facilitate the transition of borrowers to commercial credit sources. The 10 percent reserve requirement provides for contingencies, capital replacement, and the long term viability of the farm.

Question: It is my understanding that approximately 60 percent of FmHA's direct loan borrowers are expected to be shifted to guaranteed loans, yet FmHA has projected that only about 30 percent of its direct loan borrowers would meet the 10 percent debt service margin requirement. Is my understanding correct?

Answer: I am advised by FmHA that its field staff is evaluated on the basis of management and servicing goals established for the farm, housing, and community program each year. One of the farmer program goals is to obtain maximum use of private sector credit. The specific objective is to move 60 percent of the borrowers classified as standard and commercial to private sector credit. The standard and commercial classification categories exclude limited resource borrowers and account currently for about 20 percent of the farm borrower caseload. Thus, the target shift to commercial credit, with or without a guarantee, represents about 12 percent of the direct program caseload. Most of these borrowers should be able to meet the 10 percent margin requirement, especially with interest assistance.

Question: Will FmHA allow exceptions to the 10 percent debt service margin requirement depending upon the borrowers circumstances? What will be the criteria for any exceptions?

Answer: The agency does not have the authority to provide for exceptions to the margin requirements on a case-by-case basis.

Question: What is the debt service margin for FmHA borrowers who have restructured loans under the Agricultural Credit Act of 1987?

Answer: I am advised that The Food, Agriculture, Conservation and Trade Act of 1990 provides for a cashflow margin on restructured accounts of 5 percent. The lower margin for restructured accounts reflects the difficulty in resolving delinquency but is not the appropriate margin for borrowers with prospects for graduation from direct to commercial credit.

Question: In light of the existing debt service margins of current FmHA borrowers, would it not be more fair and reasonable to establish a debt service margin goal for borrowers of, say 5 percent (and perhaps 10 percent as a goal over the longer term where realistic), with exceptions allowed depending on individual circumstances?

Answer: Based on reports by GAO and OIG, the agency considers the 10 percent cashflow margin to be appropriate. The authority to provide for exceptions on individual circumstances would be extremely difficult to administer and could be subject to abuse.

IMPORTED MEAT INSPECTION

Question: How many inspectors are or will be employed by USDA, on a full-time worker-year basis, in the current fiscal year and in each of the past 12 fiscal years, to inspect meat and meat products imported into the United States from other countries?

Answer: FSIS advises me that prior to 1985, many inspectors were involved with the reinspection of imported product on an occasional basis. Since 1985, the responsibility for conducting import reinspection has been performed only by trained inspectors who specialize in this work as follows:

Year	Number of Inspectors
1985	79
1986	77
1987	85
1988	84
1989	82
1990	73
1991 Est.	73

Question: What is the estimated quantity of meat and meat products imported into the United States during the current fiscal year over which inspectors employed by USDA have inspection authority and jurisdiction, and the quantity of meat and meat products imported into the United States during each of the past 12 fiscal years over which inspectors employed by USDA had inspection authority and jurisdiction?

Answer: FSIS reports that the total pounds of meat and poultry products imported into the United States since 1980 is as follows:

Year	Number of Pounds
1980	2,106,938,985
1981	1,802,420,323
1982	1,921,641,672
1983	2,001,236,354
1984	2,177,042,156
1985	2,448,894,076
1986	2,437,144,022
1987	2,619,518,987
1988	2,811,661,278
1989	2,542,636,781
1990	2,625,355,705
1991 Est.	2,650,000,000

Question: How many lots or shipments of meat or meat products from foreign countries entered the United States in each of the past 12 fiscal years, and how many will enter the United States during the current fiscal year?

Answer: FSIS data shows that the total lots of imported meat and poultry products inspected since 1985, when comparable data became available, is as follows:

Year	Number of Lots
1985	112,899
1986	112,590
1987	119,540
1988	151,569
1989	104,700
1990	109,893
1991 Est.	110,000

Question: How many of these lots or shipments were, or will be, actually inspected by USDA inspectors?

Answer: FSIS advises me that with the exception of product from Canada, all lots of meat and poultry product will be subject to certain routine inspection. This includes a careful check of the health certificate and marks which identify the product as to country and establishment, a check of required label features, and a general check on the condition of the shipment, to eliminate dented cans, exposed products in torn boxes, etc. Some shipments are subject to further inspection, such as product examination and laboratory analysis appropriate to the type of product and performance history of the establishment. A listing by year of the number lots which received further inspections follows:

Year	Number of Lots
1985	56,241
1986	36,065
1987	33,788
1988	41,255
1989	29,222
1990	28,587
1991 Est.	30,000

All shipments from Canada are not subject to routine inspections and document checks. Spot checks at the border are performed on shipments which are part of a 3,000 lot sample or follow shipments in the case of violations.

Question: How many samples of meat or meat products shipped into the United States did USDA inspectors analyze in each of the past 12 fiscal years to detect chemical substances that are banned from use in the United States or that may be present at levels exceeding established U.S. tolerances?

Answer: FSIS has provided a listing of the number of samples of imported meat and poultry products analyzed for residues. Comparable data are available only since 1982.

Year	Samples Analyzed
1982	4,414
1983	4,344
1984	5,518
1985	15,260
1986	15,027
1987	12,164
1988	21,281
1989	13,517
1990	14,170

Question: How many samples will USDA inspectors so analyze in the current fiscal year?

Answer: In 1991 FSIS indicates that approximately 23,246 samples of imported meat and poultry products will be analyzed for residues.

Question: What quantity of meat or meat products has been denied entry into the United States by USDA inspectors in each of the past 12 fiscal years?

Answer: FSIS has provided a listing by year of the amount of meat and poultry products refused entry into the United States. Comparable data are available only from 1980.

Year	Pounds
1980	10,495,943
1981	11,281,706
1982	10,451,838

1983	16,063,638
1984	16,484,758
1985	19,893,798
1986	12,717,417
1987	12,021,029
1988	12,139,973
1989	14,415,032
1990	13,996,005

Question: How many foreign slaughter and processing plants supply meat or meat products for shipment into the United States?

Answer: In 1990, FSIS indicates that 1,426 meat slaughter and processing establishments were certified by 32 foreign countries to export meat to the United States. Of this amount, 690 establishments actually exported meat and meat products to the United States.

Question: How often is each foreign slaughter or processing plant that supplies meat or meat products for shipment to the United States visited and inspected by USDA inspectors?

Answer: FSIS advises me that an automated, performance-based system is used to guide frequency of reviews of foreign inspection systems. A foreign country may receive as many as four reviews each year or as few as two. In addition, we review certain foreign establishments. If the country has certified with the U.S. 30 plants or less, all the plants will be reviewed. If the country has certified more than 30 plants, a random selection of 30 establishments will be reviewed.

Question: How many foreign slaughter and processing plants that supply meat or meat products for shipment to the United States did USDA inspectors visit and inspect in each of the past 12 fiscal years, and how many such plants will USDA inspectors visit and inspect this year?

Answer: FSIS has provided a listing by year of foreign plant visits carried out by USDA reviewers.

Year	Number of Plants
1980	2,602
1981	2,257
1982	2,254
1983	2,130
1984	2,118
1985	2,264
1986	1,658
1987	1,398
1988	1,006
1989	852
1990	797
1991 Est.	750

QUESTIONS SUBMITTED BY SENATOR LAUTENBERG

APHIS METHODS DEVELOPMENT CENTER

Question: Mr. Secretary, I have written in the past to express my concern with the proposed relocation of the Animal Plant Health Inspection Service (APHIS) Methods Development Center from Hoboken, New Jersey to Research Triangle, North Carolina. This laboratory should stay in New Jersey, near the major ports that it serves.

Can you explain why APHIS has rejected alternate sites in New Jersey when the state has so many important academic and industrial research facilities?

Answer: We have not rejected alternate sites in New Jersey. APHIS advises me that since 1984, the Port Authority of New York and New Jersey, the City of Hoboken, New Jersey Department of Agriculture, the Methods Development Center, and associated institutions have been aware of the impending relocation of the Center at Hoboken. The move has been imminent for almost two years and still no reasonable alternative has been identified within the State. Consequently, they followed standard procedures for seeking a new location by contacting the General Services Adminstration--GSA. GSA was unable to offer an available option in New Jersey at the time. If any further sits are identified, we will be glad to evaluate them.

Question: Did APHIS solicit alternative written proposals from New Jersey academic institutions?

Answer: Not specifically however, I understand that officials in New Jersey and New York were made aware of the impending relocation of the Hoboken Plant Methods Center.

Question: The APHIS Methods Development Center provides essential services and consulting on quarantine and fumigation to importers of fresh fruits and foods to the North Atlantic ports. The experts at the Methods Development Center provide speedy service for the massive cargoes of perishable foods which come into the ports every day and must be handled quickly to prevent spoilage.

Can you explain how a laboratory which provides a vital service which ultimately benefits not only the ports but also the consumers of fresh foods can move to an landlocked location, isolated from any major ports?

Answer: APHIS advises me that the primary responsibility of the Methods Development Center is to support the National and international agricultural quarantine inspection activities of APHIS. There is no real advantage to be located at any particular port. It supports the Agency's nearly $100 million per-year agricultural quarantine inspection program. I understand that their staff has recently provided on-site expertise in Hawaii, Mexico, Chile, Peru, Brazil, Venezuela, Morocco, France, Spain, The Netherlands, and Australia. Areas of

the United States have included Oregon, Arizona, Florida, and California, as well as the northeastern states. Thus, the services of the Center cover a wide geographic area and are not confined to the ports of the U.S. Northeast.

Question: What are the costs involved with the move to North Carolina, on a five year basis, including laboratory and staff relocation expenses, customization of laboratory space and leasing costs and terms?

Answer: The costs associated with the proposed move of the Hoboken Plant Methods Center to North Carolina are being developed. This information will be available once a decision is made.

Question: Can this move be justified on the basis of cost-effectiveness?

Answer: APHIS advises me that the proposed co-location of the Methods Development Center is being considered with the Forest Service's Southeastern Forest Experiment Station, Forestry Sciences Laboratory at Research Triangle Park, North Carolina. Our decision will be justified on the basis of cost effectiveness.

Question: Another claim by APHIS is that the proposed location will ease difficulties recruiting qualified personnel. Congress recently passed a Comparability Locality Pay increase for New Jersey to ease the crunch of cost of living in the region. This pay hike is 8% over and above the COLA other federal employees received and only went into effect a few months ago.

Has the Department even given this pay increase a chance to work?

Answer: This factor will be taken into consideration in determining the cost effectiveness of the alternative sites.

Question: I understand that the Port Authority of New York and New Jersey has expressed willingness to help the Methods Development Center locate appropriate laboratory space in the ports area.

Has APHIS considered this offer?

Answer: Yes, APHIS has that offer under consideration.

QUESTIONS SUBMITTED BY SENATOR MIKULSKI

HUMAN NUTRITION RESEARCH

Question: I understand that there has been a long term, highly productive cooperation between the Agricultural Research Center at Beltsville and the University of Maryland at College

Park. What are your plans for strengthening this cooperation in the area of human nutrition research?

Answer: I understand that there has been a recent meeting between officials of the Beltsville Human Nutrition Research Center and university officials to discuss future planning and cooperation. There was agreement that plans for modernization of human nutrition research facilities would be conducted in consultation with the university to insure that ongoing collaboration is continued and strengthened.

Question: Does the Beltsville modernization program provide adequate facilities and funds to support closer collaboration between the nutrition program at the University of Maryland at College Park and the Human Nutrition Research Center? What are the needs and what is your timetable for achieving these goals?

Answer: I am advised that modernization of the Beltsville Agricultural Research Center--BARC--is proceeding under a comprehensive plan that anticipates phased renovation and new construction to address deficiencies in all parts of the center. Significant deficiencies in the existing human nutrition facilities have been identified. Within the broad context of the BARC plan, needs for improvements in human nutrition research facilities are being assessed. Given the strong collaboration with the University of Maryland in the area of human nutrition, we intend to consult with the university as specific plans for new facilities are developed. Since planning is not complete for these facilities, specific needs and a schedule cannot be delineated at this time.

QUESTIONS SUBMITTED BY SENATOR ADAMS

FAST TRACK AUTHORITY

Question: If Congress agrees to extend the President's fast-track authority to negotiate trade agreements, how will the talks with Mexico affect the resources the Department and other government agencies have devoted to the GATT Uruguay Round?

Answer: We are confident that the Department has adequate resources to pursue both negotiations simultaneously. In fact, we are doing just that at the present time.

STAFF FOR NEGOTIATING NORTH AMERICAN FREE TRADE AGREEMENT

Question: Does the Department plan to add new staff for the purpose of negotiating a North American Free Trade Agreement, or will existing staff working on the Uruguay Round simply be given added responsibility for this negotiation?

Answer: There has already been some expansion of staff in the Inter-America team of the International Trade Policy--ITP--program area of the Foreign Agricultural Service. In addition,

staff from other divisions of ITP will be called upon to support the negotiation, particularly in specific areas such as sanitary and phytosanitary issues and safgeguards where expertise developed during the Uruguay Round negotiations can be drawn upon to support the negotiation on a NAFTA. FAS commodity divisions will provide input and support on commodity specific issues that arise during the negotiation, and other USDA agencies such as the Animal and Plant Health Inspection Service and the Food Safety Inspection Service will support the negotiation in their respective areas of technical expertise. The Economic Research Service--ERS-- will be cooperating with FAS on economic analysis related to the NAFGTA. ERS has already designated a group of analysts who will be working on NAFTA-related issues.

EFFECTS OF A NORTH AMERICAN FREE TRADE AGREEMENT

Question: Please describe the effect a North American Free Trade Agreement would have on U.S. production and processing of horticultural crops, and in particular, potatoes, asparagus, onions, peas, and beans.

Answer: USDA is currently analyzing the potential effects of the proposed North American Free Trade Agreement--NAFTA--on U.S. agriculture, including the impact on individual commodities. Our initial analysis suggest that U.S. farmers would realize trade gains from a NAFTA. However, detailed analysis of the potential impacts of the NAFTA is difficult given that the negotiations have yet to begin and thus the scope of the final agreement is uncertain. Clearly, transitionary measures negotiated between our three countries will greatly determine the final impact of the agreement on U.S. agriculture, including the commodities mentioned in your question.

MEXICO FREE TRADE AGREEMENT

Question: Do you envision a growth in imports of horticultural crops and processed product from Mexico if a Free Trade Agreement were negotiated with that country?

Answer: We expect continued growth in our agricultural trade with Mexico, including our horticultural trade--both imports and exports. According to information from the Foreign Agricultural Service, U.S. imports of horticultural products have risen steadily in recent years; from about $0.5 billion in 1980 to $1.0 billion in 1986 to over $1.5 billion in 1990. They expect this import growth to continue, even in the absence of a NAFTA. With a NAFTA, one would expect a somewhat higher rate of growth of imports of certain horticultural products from Mexico. For other horticultural products, such as deciduous fruits, one would expect our exports to Mexico to be larger with a NAFTA.

URUGUAY ROUND COMPLETION

Question: If Congress agrees to extend the President's fast-track trade negotiating authority, when would you expect a Uruguay Round agreement including new rules for agriculture to be completed?

Answer: With the new structure of negotiations initiated by GATT Director General Dunkel, we expect the current phase of technical talks to conclude in June. This will set the stage, we hope, for the negotiation of a framework agreement by late July. We hope to conclude the negotiations by the end of the year.

MARKET PROMOTION PROGRAM

Question: The Market Promotion Program includes participation by a number of individual commodity groups from states, such as at least ten different commodity groups from California, whereas other state-level commodity associations are grouped together in such entities as the Western U.S. Trade Association.

What are the criteria that enable individual commodity groups like the California Raisin Advisory Board, the California Prune Board, the California Strawberry Advisory Board and others to participate as individual entities, whereas groups like the Washington Wine Institute must join another group, like WUSATA, in order to participate in the program?

Answer: The Department continues to strive for a coordinated promotional campaign among all U.S. agricultural interests in pursuit of increased exports. With respect to the Washington Wine Institute, they formed a coalition with interests from Oregon and Idaho and applied for funding under the Market Promotional Program--MPP--in fiscal year 1991. The application was subsequently withdrawn by the industry. The Department remains committed to the northwest wine industry, as evidenced by increased MPP allocations provided to WUSATA.

Question: How would the Department assist a group like the Washington wine growers or hops growers to establish independent participation in MPP on a par with the numerous California groups?

Answer: The Hop Growers are presently participants in the fiscal year 1991 Market Promotion Program, and were participants in the fiscal year 1990 Target Export Assistance Program. I assure you that all MPP applicants receive the same funding consideration in accordance with published program criteria.

QUESTIONS SUBMITTED BY SENATOR CONRAD

Question: Congress passed the Interest Assistance program to help offset the direct loan cuts in the Omnibus Budget Reconciliation Act of 1990 (OBRA). It is intended to serve two groups of borrowers. Replacing the Interest Rate Buydown program, it is to provide reduced interest rates for borrowers whose loans are maturing under that program and may need additional interest assistance. In addition, it was designed to help shift borrowers unable to obtain the scarce direct loans to guaranteed loans. I am quite surprised by FmHA's administrative decision to only authorize $482 million for loans under the

Interest Assistance program, out of a total allocation of over $3,6 billion for guaranteed loans.

In North Dakota alone, our direct OL funds were cut by $13 million in FY 1991 as a result of OBRA. In addition, the state has made $70,121,000 in guaranteed OL loans, and $34,206,000 in guaranteed FO loans under the Interest Rate Buydown program, totaling $104,327,000. Many of these loans are maturing, and the borrowers may need additional interest rate assistance. Yet North Dakota was allocated only $9,985,000 in Interest Assistance guaranteed OL loan authority to cover this shortfall.

Question: What is the annual and total dollar volume of Operating and Farm Ownership loans from 1986 until the end of the program, that FmHA has made under the old Interest Rate Buydown program?

Answer: This information will be provided for the record. The dollar volume of ownership and operating loans obligated under the Interest Buydown Program between 1986 and 1990 is as follows:

Guaranteed Lending with Interest Buydown
(millions of dollars)

	Fiscal Year				
	1986	1987	1988	1989	1990
Farm ownership	46	118	123	103	107
Farm operating	129	265	161	124	127

Question: Why did USDA allocate so little for the Interest Assistance program?

Answer: The allocation of funds to the Interest Assistance Program is consistent with the provisions of OBRA. FmHA considers the allocation appropriate to meet program requirements.

FmHA DEBT SERVICE RESERVE

Question: FmHA's interim regulations require borrowers to show a 10% debt service margin to qualify under the Interest Assistance program. I believe this requirement is too stringent. Many of the farmers the program was intended to help operate with little margin. Over 67% of FmHA's direct loan borrowers have less than 10% debt service reserve. In addition, borrowers who have loans maturing under the old Interest Rate Buydown program, which had no debt service reserve requirement, may not have a 10% reserve. Yet the Interest Assistance Program is intended to shift over 59% of FmHA's direct loan borrowers to guaranteed loans, plus assist many borrowers who used the old Interest Rate Buydown program. A total of 59.8% of FmHA's direct loan borrowers have a debt reserve of 5% or greater. It would make a great deal more sense to require only a 5% reserve to qualify for this program.

Will FmHA change its regulations to require only a 5% debt service reserve?

Answer: The Interest Assistance Program, as I understand it, is to facilitate the shift of borrowers from the direct loan program to the guaranteed loan program. A goal of FmHA is to shift 60 percent of the borrowers classified as standard and commerical to private sector credit. These borrowers account for about 20 percent of the caseload currently. Most of these borrowers should be able to meet the 10 percent margin requirement, especially with interest assistance. Based on reports by GAO and OIG, the agency considers the 10 percent cashflow margin the appropriate level required to provide for contingencies, allow for replacement of equipment and other capital items, and enhance the prospects for eventual graduation to commercial credit.

QUESTION SUBMITTED BY SENATOR GRAHAM

ORLANDO RESEARCH LAB

Question: Mr. Secretary, last year this Committee requested ARS to report on the relocation of the U.S. Horticultural Research Center located in Orlando, Florida. I continue to be interested in supporting the ARS in this matter, and hope that the relocation will begin in fiscal year 1992. To that end, would you give your assessment concerning the requirements of the proposed complex? Further, I would like to know what steps ARS has taken to identify and secure a new site for the Center and whether ARS is prepared to move forward with planning, design, and construction of the new facility.

Answer: I understand that the Orlando Horticultural Research Laboratory is nearly 50 years old. As part of a nationwide survey of research facilities, ARS has identified deficiencies in this lab and the agency has taken initial steps in defining requirements for new facilities. I understand that specific site requirements, to assure appropriate conditions for citrus research, have been determined and ARS has identified Lake Alfred, Winter Haven and Haines City areas as the most suitable. The pending 1992 budget does not include funds to purchase the site or begin planning, but we will review ARS facility needs in conjunction with our 1993 budget planning process.

QUESTIONS SUBMITTED BY SENATOR KASTEN

DAIRY PROGRAM ASSESSMENTS

Question: This week the USDA published a final rule in the Federal Register which will require all dairy farmers to file an approved conservation program for their farm--and maintain that program--in order to have their assessments refunded.

Participation in the sod/swampbuster programs is voluntary and the requirements apply only to those producers who choose to participate in those programs.

Dairy assessments are, however, MANDATORY. By requiring compliance with conservation in order to have dairy assessments refunded, dairy farmers are being forced by the federal government to participate in supposedly "voluntary" conservation programs. This is WRONG, and I ask that you correct this injustice. Would you please comment on this?

Answer: The statute provides in section 1211 and section 1221 of the Food Security Act of 1985, as amended by the Food, Agriculture, Conservation and Trade Act of 1990 that the highly erodible land conservation and wetland conservation provisions shall apply to any type of price support or payment made available under the Agricultural Act of 1949--the 1949 Act. The legal determination is that the dairy assessment refunds are payments authorized by the 1949 Act, and therefore compliance with the conservation provisions is required.

DAIRY PRODUCTS

Question: Report language in the Dire Supplemental Appropriations included report language which urges USDA to export 100 million pounds of nonfat dry milk and butter. What action is the Department taking to improve exporting of dairy products?

Answer: Beginning March 1, 1991, USDA opened a new Dairy Export Incentive Program--DEIP--making bonuses available to U.S. exporters for the shipment of over 140,000 metric tons of butterfat to 61 countries. To date ten sales have been made under the current DEIP totaling 10,000 metric tons of dairy products at a cost to USDA of over $12 million. The Department is taking steps to add cheese to the DEIP and is making dairy products fully available for export credit programs. As of this time, CCC has sold for export over 12,000 metric tons of nonfat dry milk and butteroil from CCC stocks.

Question: I recently offered legislation that will ensure small businesses are included in rebuilding Kuwait. This rebuilding effort also includes the sometimes forgotten small business--the farmer. Has the Department began any dairy exports to Kuwait?

Answer: Kuwait is eligible for dairy exports under the DEIP; however, no sales have been made to date. The agricultural trade officer from Bahrain has just returned from a trip to Kuwait to re-establish contacts disrupted by the war. We expect his recommendations shortly as to what may be possible.

Question: What is the Department's overall strategy to getting the price for dairy increased?

Answer: The Milk Management Study completion date has been advanced. We are prepared to work with Congress to shape a

balanced long-term dairy policy. We also are analyzing administrative initiatives to address more immediate concerns. Some of these initiatives may be announced soon.

QUESTIONS SUBMITTED BY SENATOR SPECTER

MILK INVENTORY MANAGEMENT PROGRAM

Mr. Secretary, as you are aware, the dairy industry in Pennsylvania has suffered significantly since late last year due to the decline in the wholesale price paid to producers. The Food, Agriculture, Conservation and Trade Act of 1990--1990 Farm Bill--directed you to submit to Congress this summer a report and recommendations on various milk inventory management programs.

Obviously, the dairy producers in Pennsylvania are very interested in the results of your review and subsequent recommendations to Congress on inventory management legislation.

Question: Are you in a position to share with this Subcommittee the progress you have made with respect to your review of a dairy inventory management program?

Answer: The Department solicited proposals from the public for programs which could be studied as part of the milk inventory management study. These were reviewed and a study of several basic types of dairy programs which were suggested, is underway. I have asked that completion of the study be accelerated so that the final report to Congress can be presented on June 15 rather than August 1 as required by the Farm Bill. In order to comply with all the Farm Bill requirements the Department will publish a preliminary or partial report on the study for public comment on May 15 or as soon thereafter as possible.

Question: How many proposals has the Department received and reviewed? Would you please supply this Subcommittee with those proposals?

Answer: Approximately 77 proposals were received by the requested submission date in February of this year. All proposals received have been reviewed during the course of this study. Copies of all the proposals and summaries of this content were provided to the Agriculture Committee of both the House and Senate. Copies can be made available to the Subcommittee as well.

Question: On December 17, 1990, and February 4, 1991, I met with Pennsylvania dairy farmers to hear their concerns first hand. Many of the farmers I met with argured that a supply management system need to be established to regulate the amount of production, thus eliminating or limiting the surplus that drive the wholesale milk price down. Do you believe a supply management system can be established that will result in more fair price to our nation's dairy producers?

Answer: It is premature to speculate about that until I have had a chance to review the study results. This of course will be a prime consideration when we formulate recommendations that will be submitted to the Congress in our final report on June 15. I am very concerned about the current plight of our dairy farmers and I hope we can find a program which offers a good long term solution at a reasonable cost. But it remains to be seen whether or not a good solution will evolve from the current review. We have tried several different approaches in the past with mixed success. All I can promise is that the Department is making an all out effort to study the problem and get our results to the public and the Congress as quickly as possible for consideration.

GATT TALKS

Question: Mr. Secretary, as you know , the GATT talks include five areas of international trade. One key area is that of agricultural trade, I have heard from many Pennsylvania dairy producers who are concerned about deterioration of Section 22 dairy import protection while allowing other countries to maintain market barriers while they provide subsidies. They are cincerned that any erosion of Section 22 without real cuts in subsidies by other countries and reduced barriers will only worsen the domestic dairy industry.

Where do you see, as the Secretary of Agriculture, the United States heading with respect to these negotiations and Section 22?

Answer: First, let me emphasize that these are multilateral negotiations and that whatever is negotiated would be binding on all current and future signatories to the GATT. We have repeatedly stressed that we are prepared to modify our agricultural support and protection system, including Section 22, but only if other countries make similar commitments to change their non-tariff barriers and reduce protection in the context of a multilateral agreement. The U.S. has never offered to unilaterally surrender our right to maintain import protection under Secton 22.

Section 22 quotas would, under a successful GATT agreement, be subject to tariffication. At first, the converted tariffs would afford a level of protection equivalent to that currently enjoyed. These tariffs would be reduced by a negotiated amount over a negotiated time frame. Safeguard measures would be in place during a transition period to guard against import surges and insure that the U.S. industries would have time to react to the changing economic environment.

Question: Last year the stumbling block to a successful GATT agreement was the European Economic Community's reluctance to open their agricultural market to foreign competition. Has the European Economic Community shown any new interest in reducing market access barriers or reducing subsidies to allow for a successful GATT agreement?

Answer: In late February, GATT Director General Dunkel reported that as a result of his consultations participants agreed to "conduct negotiations to achieve specific binding commitments on each of the following areas: domestic support, market access, and export competition; and to reach an agreement on sanitary and phytosanitary issues;..." We interpret this as a commitment by the EC to negotiate on all these issues. Currently, very detailed technical consultations are underway, and we are satisfied with the seriousness with which the EC is participating.

We believe the stage is set for change in the EC. Not only was the EC politically isolated as a result of the Brussels Ministerial in December 1990, the EC is also facing mounting farm surpluses and is expecting farm program support spending to reach and posssibly exceed the budget limits established in 1988. EC agricultural subsidies are expected to reach $42 billion in 1991, nearly four times the level of U.S. expenditures for price farm income support.

The EC has much to gain from a successful GATT agreement, particularly in the areas of services, market access, intellectual property rights, and investment. We hope that these interests, along with the crying need for EC farm policy reform will prompt the Community to respond to international pressure and accept agricultural trade reform.

METHODS DEVELOPMENT CENTER

Question: Mr. Secretary, on December 5, 1990, my colleagues and I wrote to then Secretary of Agriculture Clayton Yeutter regarding our concerns with the proposed relocation of the Methods Development Center from Hoboken, New Jersey. It is my understanding that the Center functions in the role of advisor and provides an invaluable port operations function in developing new techniques for fumigation. Specifically, the Center has provided a much needed service to the Ports on the Delaware River on how to comply with APHIS regulations as well as how to properly fumigate larger quantities of perishable commodities to protect consumers and American agriculture.

Is it accurate that the Methods Center provides expert guidance to ports and port facilities in the country on proper fumigation and decontamination techniques for perishable commodities?

Answer: Yes, the Hoboken Plant Methods Development Center develops proper fumigation and decontamination techniques. But, its guidance is not limited to the Northeast ports and port facilities. The center supports National and international agricultural quarantine inspection activities of APHIS.

Question: In light of the huge volume of imported perishables which pass through the North Atlantic Ports, specifically the Philadelphia Port, why would USDA move the Methods Center inland to North Carolina, and not seek an alternative site in the region?

Answer: We only have one Methods Development Center. It supports all the National and international agricultural quarantine inspection locations. At this time, we have not reached a decision regarding where to locate methods centers. Available federal sits in the region will be evaluated.

Question: There is a concern that moving this Center inland will not only result in diminished port operations capacity but will diminish accessibility and timeliness of responses?

Answer: We already have a comprehensive agricultural quarantine inspection system at the ports in the Northeast. The front-line inspectors are not moving. The Methods Development Center provides technical and scientific support to this system, as it does to the other regions of the nation.

Question: How do you suggest the Ports in the Northeast satisfy the USDA regulations given these constraints?

Answer: The location of the Methods Development Center should have no impact on the ability of the front-line inspection forces to conduct their work.

Question: Do you plan to send this Subcommittee and the House Agriculture Appropriations Subcommittee a reprogramming request to inform us of your plans?

Answer: The proposed relocation of the Hoboken Methods Development Center does not involve reprogramming of funds between line items. However, we will continue discussing the matter with the Congress and will notify you of our course of action once a decision is made.

CONCLUSION OF HEARINGS

Senator BURDICK. This is the last of our scheduled hearings for the subcommittee. The subcommittee stands in recess, subject to the call of the Chair.

[Whereupon, at 12:13 p.m., Friday, April 26, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE.—The following agencies of the Department of Agriculture did not appear before the subcommittee this year. Chairman Burdick requested these agencies to submit testimony in support of their fiscal year 1992 budget request. Those statements follow:]

DEPARTMENT OF AGRICULTURE

AGRICULTURAL COOPERATIVE SERVICE

STATEMENT OF RANDALL E. TORGERSON, ADMINISTRATOR

Mr. Chairman and Members of the Committee, I appreciate the opportunity of appearing before you to present the budget of the Agricultural Cooperative Service. First, I would like to introduce my associates, James E. Haskell, Deputy Administrator, Agricultural Cooperative Service; and Michael C. Cregoire, Director of the Budget and Accounting Division, Animal and Plant Health Inspection Service.

AGENCY MISSIONS

The Agricultural Cooperative Service (ACS) serves as the Department's focal point in providing research, technical assistance and education to farmer-owned cooperatives throughout the United States.

ACS strives to held farmers get a better price for their products; help farmers reduce their operating expenses; help farmers to use their cooperatives to gain for themselves economic advantages of integration; help increase services available to farm and non-farm cooperative members, and to improve operating efficiency of the cooperative system.

ACS is a separate Agency to which the Secretary of Agriculture has delegated responsibilities of carrying out these objectives and the functions directed by Congress in the Cooperative Marketing Act of 1926. The Agency provides a program of cooperative research, technical assistance, and education to bring about more efficient and effective cooperative operations in support of family farm agriculture and rural communities. ACS also serves as the focal point for the collection and dissemination of statistics on farmer cooperatives and analysis of policy issues affecting farmer cooperatives.

FARMER COOPERATIVES ADAPTING TO CHANGE

As farmers look through the 1990's and beyond they see a world and a marketplace that is rapidly changing. It is a world shaped by increased global influence on U.S. markets, growth of larger, more complex business organizations, greater immediacy of environmental and nutritional concerns, and the budgetary realities forcing adjustments to traditional farm programs. It is a world of increased opportunities for farmers, but a world fraught with risk.

Accepting risks is nothing new to farmers; they are perhaps the biggest risk takers of all. But what has characterized farmers is their ability to use all the tools available to make these risks manageable. In the future, as in the past, one of the most important and significant of these tools will be farmer-owned cooperatives. Cooperatives are the tools farmers use to take control of their own economic lives.

Cooperatives are private investments by farmers in their own futures. It is in support of this private sector approach that the Federal Government has historically made its investment in the promotion of knowledge and use of cooperatives. By supporting a small, but vibrant infrastructure of cooperative education, research, and technical support, the Federal Government has attempted to ensure that all farmers

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are able to avail themselves of this critical tool for solving their own problems and meeting the future challenges of the marketplace.

As we celebrate the 65th anniversary of the Cooperative Marketing Act of 1926 this year, we see that while the nature of the needs of farmers has not changed, the scope and magnitude of those needs is greater than ever. Competition is tough and getting tougher. The competitors are larger than ever—worldwide in scope. The rules of the game are changing. The Budget Reconciliation Act of 1990 provides a market orientation to U.S. agriculture. Farmers, now more than ever, are challenged to find their own solutions. Farmers need to use that cooperative tool to help them help themselves in this new market environment.

New opportunities are presenting themselves to farmers. The location of production is shifting. New and alternative crops are being tested. New growing methods are being explored. With these new opportunities for farmers to diversify and seek alternative sources of income, new problems also arise in developing or gaining access to market, and obtaining services, supplies, and technical advice. Here in particular is where farmers need to turn to cooperatives—at the dynamic edge of modern American agriculture. It is the goal of the ACS program of technical assistance to make sure that when these farmers are positioned to turn to cooperatives, that they do it right and do it well. When this occurs, everyone benefits—the farmers, the consumer, and the taxpayer.

Through a program of education, economic research, and technical advisory services, the Agricultural Cooperative Service has been the point Agency in the Federal Government's effort to promote and stimulate a strong cooperative infrastructure. That contribution has been significant, but more remains to be done.

Examples of our research published during this last fiscal year includes: Marketing High Value Products in the Pacific Rim; Cooperatives' Role in the Artificial Insemination Industry; Over-Order Payments in Federal Milk Marketing Orders; Operations of Petroleum Cooperatives; and Leasing as an Alternative Method of Financing Cooperatives.

ACS technical assistance varies widely by commodity and geography. A few examples from this past year show assistance to: A Texas cottonseed processing cooperative on the feasibility of crushing soybeans; a dairy cooperative in the Northeast on strategic management planning; a Hawaiian farm supply cooperative; an Oklahoma cotton gin considering peanut shelling and marketing; the feasibility of a marketing cooperative for sweet potatoes in Mississippi; and the feasibility of a livestock marketing cooperative in Indiana.

Over the past two decades, cooperative education activities have eroded at all levels. Cutbacks in investments in cooperative education have been made by national, State, and local institutions as well as cooperatives themselves as funds have grown tight and earnings erratic. At ACS we have attempted to counter this increasingly worrisome trend. In reviewing our program mix, we view cooperative education as an investment rather than an expense. We have embarked on a strategy of developing educational materials which provide a complete and self contained educational package for the user. One example is our package Understanding Cooperatives, designed for secondary school courses. State Cooperative Councils, operating cooperatives, etc., that we introduced this past year. Another is an increasing emphasis on training cooperative directors. This type of approach is needed in several other areas.

We need to do a better job of educating the educators and those at the State and local level who work closely with farmers. These people need to understand enough about cooperatives to recognize when a cooperative approach is needed and to get farmers started on the right track.

Economic research on issues and problems facing cooperatives has been done, over the years, by ACS and university researchers. The results of this broad and diversified research effort have been directly applied by farmers in their cooperatives, thereby making the cooperative system more effective, efficient, and responsive to the needs of farmers and the demands of the marketplace. Benefits have accrued to farmers and consumers alike.

The tandem effort of ACS and the land grant university system has been highly effective over the years. However, we are seeing cooperative-related research disappearing at many of our universities and with it the teaching and development of students possessing a strong base of knowledge in cooperatives. This emphasizes the importance of ACS's continued program of research and educational material development.

BUDGET REQUEST

The fiscal year 1992 budget for the Agricultural Cooperative Service is $5,140,000. with a staff year ceiling of 69. Our fiscal year 1992 budget proposes a $276,000 increase over 1991 for increased pay costs.

The Agency will continue its research and technical assistance programs to existing cooperatives and our cooperative development activities including field operations in Hawaii, Ohio, and North Carolina.

Mr. Chairman, I thank you for the opportunity to present this statement. We will be glad to respond to any questions

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DEPARTMENTAL ADMINISTRATION AND OFFICE OF THE SECRETARY

STATEMENT OF CHARLES R. HILTY, ASSOCIATE DEPUTY SECRETARY

Mr. Chairman and members of the Subcommittee, I am pleased to appear here today to discuss the fiscal year 1992 budget request for Departmental Administration, GSA Rental Payments and Building Operations, Advisory Committees, Hazardous Waste Management, the Working Capital Fund, and the Office of the Secretary. With me today are Larry Wilson, the Director of the' Office of Finance and Management, Connie Gillam, my Budget Officer, and Steve Dewhurst, the Department's Budget Officer.

DEPARTMENTAL MANAGEMENT

USDA is one of the largest civilian Federal Departments with over 113,000 staff years at 15,000 sites across the Nation. Our programs are diverse and affect large numbers of farmers, ranchers, producers, consumers, and children. Our management oversees as large a range of activities as any Federal Department. Considerable resources are needed to formulate policy and manage a Department as complex as USDA.

Although I was not at the Department when the budget was prepared, I have spent some time reviewing the Budget Request for the activities I am here to discuss. I know it is not easy for this Committee to support budget increases in the current budget environment, particularly for staff organizations. However, I am convinced that some increase is urgently needed for two fundamental reasons.

In the first place, these are small organizations. A significant part of the money in this budget is for increased pay costs which they simply cannot absorb without unacceptable consequences. In addition, program increases are requested in areas where the Department urgently needs additional help. Farmers and other USDA clientele should be able to expect to deal with a Department which is well managed and responsive to their needs. In many ways that responsiveness begins with the services provided by the staff offices included in this appropriations request. For these reasons, we will appreciate any help the Committee can give us in meeting the needs of these organizations.

DEPARTMENTAL ADMINISTRATION

The Budget Request for Departmental Administration for fiscal year 1992 is $26.6 million, an increase of $3.5 million above fiscal year 1991. Within this increase is a request of $1.6 million for increased pay costs associated with general pay raises for 1991 and 1992, plus $119,000 for a legally mandated salary increase of our Administrative Law Judges. Also the increase includes $1.8 million for a number of Departmental program support initiatives which I will discuss in more detail.

IRM STRATEGIC PLAN

One of these support initiatives results from a process the Department embarked on this year. We are developing a plan for improving USDA's management information systems to better serve farmers and other USDA clientele. We refer to this plan as the Information Resources Management or IRM Strategic Plan. The Office of Information Resources Management within Departmental Administration has overall responsibility for development and oversight of the implementation of this plan. Each step of the process involves the cooperation and assistance of management from all areas of USDA. Once this plan is implemented, the integrated systems will provide for sharing of certain program information across agency lines. Managers will be provided data needed for effective management of programs more efficiently.

Another goal of systems integration is to use information technology to improve service to farmers and other members of the public and to reduce burdensome pa-

perwork. In fiscal year 1992, we propose to develop pilot programs at several locations to test improved methods of handling information. Some preliminary work has already begun. A number of agencies are involved. These include Farmers Home Administration, Soil Conservation Service, Agricultural Stabilization and Conservation Service, Extension Service, the National Agricultural Library and the Office of Finance and Management. We will pilot test a number of different approaches to simplifying paperwork for farmers and for electronic data sharing among agencies at the field level. The benefits will be that farmers have fewer forms to fill out when signing up for USDA programs and more routine tasks will be done by computers with improved speed and accuracy. While we expect some immediate returns this will be a multi-year initiative. It may eventually require legislative proposals to change mandatory information provisions of some farm programs.

Our emphasis in 1992 will be to carry out the IRM Strategic Plan as agencies implement new IRM initiatives or update current information systems. For fiscal year 1992 an increase of $266,000 and 4 staff years is requested for the Office of Information Resources Management to provide central coordination, review and assessment of USDA agencies ADP acquisitions as part of the IRM Strategic Plan Process: further development of the IRM Strategic Plan; and increased computer access of program information for top policy officials of the Department.

MAPS/AIMS

Another initiative is the Modern Administrative Processing System (MAPS) which is a systems development project that resulted from a collaborative study by representatives of the agencies and staff offices. The ultimate goal of MAPS and its automated core processing component, which we call the Administrative Integrated Management System (AIMS), is an electronic workplace that will increase employee productivity and make the administrative process more efficient from beginning to end. All of the current paper driven administrative processes, such as procurement, personnel, payroll, property management, payments, and fiscal operations will be brought onto one electronically based, integrated system. All of the common use systems we now operate at the National Finance Center will be replaced. Each agency will be able to adapt its system to MAPS without costly modifications.

The Office of Finance and Management (OFM) is leading the MAPS project. They are working on MAPS development with three USDA pilot agencies, the Forest Service, the Agricultural Research Service, and the Farmers Home Administration. As MAPS/AIMS moves from the design phase, added resources will be needed by OFM to coordinate with other USDA agencies to test and implement the new system, and provide training. For fiscal year 1992 we request an increase of $240,000 and 2 staff years to manage and implement the MAPS/AIMS Project.

As part of the MAPS project the Office of Operations (OO) plans to upgrade its systems for management of space, real property and personal property. There is a constant demand for increased services to USDA agencies in the areas of contracting and procurement, personnel service agreements, personal property and space management that requires additional personnel and ADP equipment to maintain productivity. The Budget Request includes $193,000 and one staff year to allow OO to replace outdated ADP equipment and provide additional service to the USDA agencies.

WORK FORCE DIVERSITY

Perhaps the most formidable challenge facing the Federal government and USDA is keeping abreast of the demographic changes reshaping America's work force. The U.S. Department of Labor maintains that between now and the year 2000, women, minorities and immigrants will account for 80 percent of the growth in the United States labor force. USDA has begun to develop a work force diversity program to assure USDA remains competitive in the labor market, and delivers quality services. In fiscal year 1992 an increase of $280,000 and 3 staff years is requested for the Office of Personnel to complete development of a work force planning framework for the Department, develop a Departmentwide recruitment program with a network of contacts for minorities and the disabled, and to train managers to build a culturally diverse work force. This centralized planning, recruitment, and training will provide a service to USDA agencies and reduce their costs for these activities. The work force diversity efforts should increase the number of women, minorities, and individuals with disabilities in the USDA work force. We believe a diversified work force will improve the delivery of USDA programs.

COMPLAINT RESOLUTION

The Department receives over 600 complaints of discrimination a year. The complaints generally involve housing, farm operations, and food programs. In many instances the case resolution time is too long. For example, it takes on average 380 days to process an FmHA complaint. Although part of the process is automated, much of the complaint information is being processed manually, which slows down the resolution process. An increase of $170,000 and 2 staff years in fiscal year 1992 would permit the Office of Advocacy and Enterprise (OAE) to fully automate and improve the investigation and adjudication process. Added resources will increase the capacity for OAE to provide quick response to agency requests for technical assistance which should result in reduced complaint resolution time. Also, OAE will be able to provide more effective on-site review of compliance to achieve the goal of better compliance and a reduced number of complaints.

SPECIAL PROJECTS

The Food, Agriculture, Conservation, and Trade Act of 1990 requires the Department to provide outreach and technical assistance to encourage socially disadvantaged farmers and ranchers to own and operate farms and ranches and to participate in agricultural programs. An increase of $100,000 and 1 staff year are requested to carry out this mandate and to implement a Pilot Educational Farmworker Apprentice Project. With the assistance of a number of USDA agencies and the Department of Labor, seasonal farmworkers will be trained to become self-sufficient farmers. Also, emphasis will be placed on working with USDA agencies to provide socially disadvantaged farmers with technical assistance on farm operations.

Enactment of recent legislation makes it necessary to train employees in many of our field locations on new provisions related to small business. An increase of $20,000 would provide this training that supports increased involvement of women and small and minority contractors in USDA procurements.

AGENCY OVERSIGHT AND OTHER SERVICES

GAO issued an audit in 1990 criticizing USDA's compliance with the Ethics Act of 1978 and related Executive Orders. An increase of $170,000 and 1 staff year is requested for fiscal 1992 to provide ethics training to employees and improve oversight of agencies' ethics programs.

Also during 1990, the Congress passed the Chief Financial Officers (CFO) Act which has a bearing on Departmental management. The CFO Act sets new standards for financial management and accountability of all Federal agencies. As a pilot agency, USDA must produce audited fiscal year financial statements each year. Also a new policy official, the Chief Financial Officer, is required by the CFO Act. Placement of the CFO in USDA's organizational structure is under consideration now. An increase of $250,000 and 2 staff years is requested in fiscal year 1992 for the Office of Finance and Management to held the agencies prepare the financial statements required by the CFO Act and work with the Inspector General in resolving audit issues.

An increase of $60,000 and 1 staff year will be used to improve budget and financial services to the Office of the Secretary and Departmental Staff Offices.

RENTAL PAYMENTS

This appropriation finances a portion of the Department's payment to the General Services Administration for space rental and related costs. In fiscal year 1992, the Department requests $51.6 million for Rental Payments. The fiscal year 1992 request is $2.8 million over the current fiscal year level of $48.8 million. The budget request also includes an increase in the limitation for rental payment funds retained for non-recurring repairs from $3 million to $5 million for fiscal year 1992. This change will enable USDA to address the increasing backlog of non-recurring repairs needed to restore the buildings in the D.C. complex to a safe and functional condition.

BUILDINGS OPERATIONS AND MAINTENANCE

The Building Operations and Maintenance appropriation funds the Departmental staff and support services to operate and maintain the downtown USDA Headquarters complex. For fiscal year 1992 the Building Operations and Maintenance request is $25.7 million, an increase of $0.6 million over the current fiscal year level of $25.1 million. Part of this increase, $256,000, is for increased pay costs. Another portion of the increase, $171,000, is for annual pricing adjustments required by the Fair

Labor Standards Act and the Services Contract Act when building operations and maintenance contracts are renewed each year. The last part of this increase is $180,000 to cover increased electric utilities costs to support the operation of the Auditors Building, which was reoccupied in January 1990 after the renovation was completed.

ADVISORY COMMITTEES

In the fiscal year 1983 Appropriations Act, the Congress established a single appropriation for USDA Advisory Committees other than those funded from the Forest Service appropriation or user fees. The fiscal year 1992 USDA Advisory Committee request of $2 million is $0.6 million more than the current fiscal year 1991 level of $1.4 million. The increase will be used primarily to fund committees authorized by the Food, Agriculture, Conservation and Trade Act of 1990 and the National Nutrition Monitoring and Related Research Act of 1990.

HAZARDOUS WASTE MANAGEMENT

The fiscal 1992 budget continues USDA's program to promote facility compliance by agencies with the Comprehensive Environmental Response, Compensation and Liability Act and the Resource Conservation and Recovery Act. Those problems require costly corrective actions to remedy hazardous waste contamination from leaking underground storage tanks, abandoned mining wastes, inadequate pesticide disposal, seepage from sanitary landfills, and pesticides from grain storage bins.

USDA requests $29.9 million for the Hazardous Waste Management program in fiscal year 1992. This is an increase of $5.2 million above the fiscal year 1991 appropriation. The increased funds will allow USDA's agencies to meet goals for protecting ground water resources, to comply with various environmental laws, and to attack problems posed by past disposal practices.

A chance in appropriation language is requested to allow use of funds under this appropriation by the Commodity Credit Corporation (CCC) for site investigations and remedial action at former grain bin storage sites. These sites may have around water contamination from carbon tetrachloride, a common component of grain bin fumigants used when CCC operated the storage bin program. CCC funds will be used for operation and maintenance of equipment at sites requiring long-term treatment.

WORKING CAPITAL FUND

The Working Capital Fund is used to finance services provided to USDA and non-USDA agencies on a centralized basis. For fiscal 1992, the WCF activities are exploring cost-effective means to provide our agencies telecommunications support needed to take advantage of new voice and data communications methods. Innovative ways are being sought to address agencies' specialized applications needs in mainframe computer, minicomputer or PC network environments. The recapitalization effort made possible by specifically appropriated funding was remarkably successful in improving the quality of the services USDA agencies receive and in realizing economies through improved data processing technologies. USDA's NFC and computer centers have used the recapitalization program to expand mainframe computer capacity and lower unit costs to USDA agencies. The capital acquisition effort is complete and no appropriated funds are requested.

OFFICE OF THE SECRETARY

The fiscal year 1992 request for the Office of the Secretary is $9.1 million, an increase of $1.4 million over the fiscal year 1991 appropriation. Of the increase $657,000 covers annualization of the fiscal year 1991 pay increase and the anticipated fiscal year 1992 pay increase.

An increase $377,000 is for six additional positions. Two positions are for the Office of the Under Secretary for Small Community and Rural Development. They are needed to coordinate rural development activities both within USDA, and with other Federal departments, State and local agencies, and other groups interested in rural development. They will keep the Under Secretary abreast of rural development issues, assist in developing policies and work with the new Rural Development Administration.

Two positions are requested for the Office of the Under Secretary for International Affairs and Commodity Programs. They will work to expand agricultural trade in foreign markets. The staff will assist the Under Secretary in developing policies af-

fecting the Nation's domestic agriculture program, export programs, and bilateral and multilateral trade agreements.

Funding is proposed for the Office of the Assistant Secretary for Administration to hire students from the Cooperative Education Program. They will perform essential administrative duties related to their studies. This program will help attract highly qualified candidates for future administrative and management positions within USDA.

The remaining increase of $409,000 covers non-salary operating costs for travel, communications, supplies and equipment. The Office of the Secretary does not have the flexibility to absorb this increase. Without this increase, USDA senior management cannot successfully carry out USDA's mission, develop policy guidance and provide direction for USDA's operating programs and activities.

Thank you for the opportunity to speak today about our plans. I would be pleased to respond to your questions.

ECONOMIC RESEARCH SERVICE

STATEMENT OF JOHN E. LEE, JR., ADMINISTRATOR

Mr. Chairman and members of the committee, I am pleased to appear before you again; this time to present our proposed budget for fiscal year 1992.

ACCOMPLISHMENTS IN FISCAL YEAR 1990

I won't repeat the details of them here, but I direct your attention to the selected examples of recent progress that appear on pages 22g1–11 of the Explanatory Notes. These examples reveal, I believe, that the people of ERS are dealing with the critical issues of the day and that our work has improved the knowledge base pertaining to those issues.

Examples in our Commodity Economics Division include work on determinants of foodstore prices, use of futures and options markets in farm programs, impacts of trade liberalization, our National Food Review magazine, cost-effectiveness of the export enhancement program, and implementation of the harmonized system of trade reporting. Examples in our Agriculture and Trade Analysis Division include impacts of trade reform on agriculture, status of the economic well-being of world agriculture, U.S. export prospects, impacts of alternative U.S. agricultural policies, impacts of EC–1992, and impacts of the increasing market orientation in the centrally planned economies. Examples in our Resources and Technology Division include cost/benefits of alternative conservation and environmental policies, impacts of public policy on technical change, impacts on crop production of reallocating Federal irrigation water, impacts of expectations and speculative bubbles on farmland prices, implications of alternative management strategies on ground water quality, and impacts on agricultural production of restricted pesticide use. Examples in our Agriculture and Rural Economy Division include impacts of deregulation on rural financial markets and credit policy, cost-of-production estimates, rural development policy implementation, impacts of changes in farm structure, impacts of petroleum and other price shocks on agricultural markets, contribution of the elderly's income to rural development, and sponsorship of activities to celebrate the centennial of the 1890 universities.

ISSUES IN THE 1990'S

The 1990's will be challenging for American agriculture. Let me take a minute to outline three areas where we see major challenges to U.S. agriculture and where ERS can help decisionmakers face those challenges with its research and public information programs.

Global Markets for U.S. Agriculture.—A changing global economy and world trade order offer market opportunities for the United States. ERS's research in the 1990's will be geared to (1) identifying where these opportunities exist, (2) discovering the determinants of the U.S. ability to compete in these potential markets, (3) predicting how Eastern European countries will adjust to an open environment, (4) forecasting the effects of capital flows to Eastern Europe away from the developing countries in the Third World and the consequent needs for economic development assistance, (5) tracing the implications of further European integration, (6) assessing the impacts of significant policy changes in the Third World countries, and (7) quantifying the implications of multilateral and bilateral trade agreements.

New Forces Affecting Agricultural and Resource Markets.—New (and some not-so-new) forces at play in agricultural and resource markets include regulatory issues,

food safety, water quality, the environment, sustainability of agriculture, longrun resource adequacy, global change, population growth, technology, productivity, salinization, and deforestation. Three of these areas involve fiscal year 1992 budget initiatives that I will speak to in more detail in a moment-food safety, water quality, and global change. For the other areas, ERS research in the 1990's is geared to (1) identifying the economic implications of changing perceptions of environmental constraints for agriculture and the rural economy, (2) assessing the impacts of new standards, taxes, property rights regulations, and labeling rules on the Federal budget, income distribution, industry structure, competitiveness, and comparative advantage, (3) examining the effectiveness of each level of regulation (self, local government, State, or Federal), (4) researching how we can develop a sustainable agricultural system that protects human health and environmental quality, and (5) tracing the implications of sustainable agricultural systems on the U.S. economy and on environmental quality.

Well-Being of Rural People.—Social, economic, and demographic changes are accelerating in rural areas. ERS research in the 1990's is geared to (1) analyzing the current state and determinants of the competitive position of rural industries and communities, (2) examining the determinants of and alternative strategies to address persistent rural poverty, (3) measuring and describing the rural economy and understanding its social, economic, and demographic linkages, and (4) relating changes in rural industry performance to rural well-being.

ERS CLIENTELE/CONSTITUENCY

The Administration's generous support for ERS's budget in a year in which there can be no real growth in discretionary programs merits some brief explanation.

ERS's real clientele/constituency is, in one sense, invisible, because it is not comprised of identifiable people or groups who lobby you on ERS's behalf. ERS exists solely to improve the performance of agriculture and the rural economy in serving the public interest. We do that primarily by providing objective information, the equal access to which is a necessary condition for free and open markets to produce fair and equitable profits for producers and fair and equitable prices for consumers. Our invisible clientele/constituency, therefore, is society's belief in and faith in that economic system.

ERS provides information that enhances the public's understanding of agricultural, rural, and resource markets and developments and the consequences of alternative policies, technologies, and other real and potential events. If the information we produce is valid, transparent (not misleading), and timely and effectively disseminated, then policymakers, farmers, business managers, consumers, voters, and others can make more enlightened decisions and our free market system will be the better for it.

FISCAL YEAR 1992 BUDGET REQUEST

Our fiscal year 1992 budget request is for $62.5 million, a 15-percent increase over your fiscal year 1991 appropriation to ERS. The increases are for economic analysis and research on food safety ($2.5 million), water quality ($1 million), and global change ($1.7 million) and for program evaluations ($329,000) and pay costs ($2.6 million).

Food Safety Initiative.—This $2.5-million initiative complements and expands USDA's fiscal year 1991 Food Safety Initiative, which involves several USDA agencies. In fiscal year 1991, data on pesticide use and practices on fresh vegetables for five States are being collected by NASS and analyzed by ERS to understand the economic effects of alternative pesticide use levels and practices on the production of fresh vegetables.

The fiscal year 1992 increment would enable NASS to expand the survey of producers to cover more commodities and more States and would give ERS the resources to analyze the additional data and to expand the analysis to the yield and quality effects of various pesticide regulatory strategies. In addition, the fiscal year 1992 increment would enable ERS to conduct a separate survey on the use of chemicals and pesticides on fruits and vegetables in the marketing/distribution channels by firms involved in the marketing/distribution of the commodities covered in NASS's producer survey. Without this information, tracing pesticide residuals to source of pesticide or chemical application for establishing control mechanisms would be difficult to impossible (impossible in the case of chemicals that can be used both in production and marketing/distribution channels). As part of this new annual survey, ERS would identify post-farm-gate treatment practices and analyze information on the economic consequences of various strategies employed by retailing firms, including certification, labeling, trimming, and washing.

The fiscal year 1992 increment would also permit ERS to establish a research program to analyze the economic implications of consumer behavior in relation to knowledge of foodborne health risks and changes in product characteristics. This information is necessary to evaluate the costs and benefits of alternative production and marketing practices. Funds would also be used to conduct research on the economics of alternative control systems for microbial contaminants and natural toxins.

Water Quality Initiative.—This $1.0-million initiative also involves several USDA agencies that have water quality programs. The fiscal year 1992 funding increment would allow ERS to expand water-quality-related data collection and economic and policy analysis in response to the needs of USDA and other Federal agencies for research, education, technical assistance, and pesticide benefit-cost and risk assessments.

In particular, the fiscal year 1992 increment would enable ERS to expand the existing annual survey to more States and more crops, with statistical reliability at the State level. The fiscal year 1992 increment would also permit ERS to assess the economic consequences of adoption of new management practices under development by ARS and universities.

Global Change Initiative.—This $1.7-million initiative is the economic companion to the USDA proposal that supports the Administration's Global Change Research Initiative coordinated under the Committee on Earth and Environmental Science and would be an entirely new program for ERS. Of the total amount requested, $500,000 would be for in-house analysis of farmer response to global change and $1.2 million would be for cooperative research with universities to develop and improve forecasting models.

The analysis of farmer response to global change would include possible changes in the crops produced, shifts in the growing season, better use of existing technologies, and possible changes in technology that could help farmers respond to global change.

The economic analysis of long-term global resource issues requires unique models and techniques. The effort with universities to develop and improve such models is aimed at assessing resource and environmental issues in the setting of an open agricultural economy where resource and environmental efforts are global.

Program Evaluations.—This $329,000 increase would fund evaluations of the cost-effectiveness of some high priority programs, to be determined as needs arise. Potential candidates for evaluations could include Federal crop insurance, programs to promote U.S. agricultural exports, and others.

Pay costs.—This $2.6-million increase would cover the difference between the fiscal year 1991 increase for the January 1991 pay raise and its full annualized cost. It would also cover the fiscal year 1992 cost (nonannualized) of the anticipated January 1992 pay raise.

CLOSING REMARKS

Next month, ERS will be 30 years old. I appreciate the support that this Committee has given ERS over those 30 years and look forward to working with you to ensure that ERS is addressing the highest priority issues and making the best possible use of the funds entrusted to it, through you, by the U.S. taxpayer.

Thank you. I will be happy to respond to your questions.

FEDERAL GRAIN INSPECTION SERVICE

STATEMENT OF JOHN C. FOLTZ, ADMINISTRATOR

Mr. Chairman and Members of the Committee: We appreciate the opportunity to present the Federal Grain Inspection Service (FGIS) budget for fiscal year 1992.

In addition to our specific budget request, this presentation includes an overview of the Agency's mission and program for fiscal year 1990.

INSPECTION AND WEIGHING SYSTEM

There are approximately 4,123 employees in the official inspection system. Of this total 756 are full-time and 157 are part-time FGIS employees and 3,210 are non-Federal personnel employed by private agencies and States designated or delegated by FGIS to provide official inspection and weighing services. Direct on-line inspection and weighing of grain at 62 export elevators is provided by FGIS employees. Eight delegated States employ approximately 808 employees and provide mandatory official services at an additional 26 export elevators. Under direct FGIS oversight,

the remaining 2,402 employees, employed by designated agencies (State and private), provide inspection and weighing services at interior locations, upon request.

The total Agency budget request for fiscal year 1992 is $53.2 million; the fiscal year 1991 budget is $46.9 million. In this request, $13.0 million is for existing appropriated activities, new initiatives, and pay increases compared to $9.7 million in fiscal year 1991. The fiscal year 1992 appropriated request includes funding for: Standardization activities; compliance activities; and international monitoring.

This request also includes funding for FGIS employees who participate in our Advisory Committee functions.

We are proposing new initiatives in the areas of food safety, grain quality, and automation of the grain inspection system.

Inspection and Weighing activities, funded by user fees, are estimated at $40.2 million. Our request includes pay costs for fiscal year 1991 and 1992 and identifies new program initiatives for Inspection and Weighing Services.

FGIS lost $3.8 million in the trust fund in fiscal year 1990. Revenues from user fees were $30.4 million, while obligations were $34.2 million. Ongoing inspection and weighing activities continue to decline in fiscal year 1991, while operating costs increase, resulting in a first quarter loss of $2.0 million. To avoid further depletion of the $8 million operating reserve, the Agency is reducing fiscal year 1991 operating costs by $4.6 million. Several cost containment initiatives, based on recommendations of an internal review group and of the FGIS Advisory Committee, are currently underway. Reduction-in-force and furlough activity have begun, positions are being abolished and field offices are being consolidated. Travel, training, and equipment purchases are being held to an absolute minimum.

The Administration continues to support the legislation submitted in fiscal year 1991, but not enacted, to recover costs of establishing standards and specifications for agricultural products. Sections within the U.S. Grain Standards Act (USGSA), the Agricultural Marketing Act of 1946 (AMA), and other Federal statutes would be amended by legislation to implement user fees for standardization and quality assurance activities.

FGIS standards provide a uniform language which facilitates marketing and provides a credible basis for trade among producers, traders, and domestic or foreign buyers. The standards, and the research upon which they are based fill a need and are of direct benefit to the industry; consequently, fees for these services should be a direct cost to the grain industry, from producer to exporter. We are currently raising fees in the inspection and weighing program, the first since 1987, a shift of this type would necessitate an additional increase in fees.

FGIS dependence on user fees has increased from 59 percent in fiscal year 1985 to 81 percent in fiscal year 1990. Given our dependence upon fees, the grain industry recognizes our continued efforts to provide a cost effective user fee funded service. FGIS has improved both its service and its public perception and will continue to interact with the industry and work to earn its support

The Food, Agriculture, Conservation, and Trade Act of 1990 mandates FGIS involvement in the following areas: improving the cleanliness of grain, adding grade determining factors for physical soundness and purity, prohibiting contamination of grain, requiring aflatoxin testing on corn exports, and standardizing commercial inspections. Programs were begun in these areas in fiscal year 1990; funding levels for fiscal year 1991 enable the Agency to continue ongoing programs and provide limited ability to initiate new programs.

FGIS continues to emphasize its food safety initiatives involving chemical residues and mycotoxin detection. A considerable amount of time and effort has been devoted to evaluating methods to test grain for contaminants, establishing specifications, evaluating commercial test kits, and training field personnel in the application of these procedures.

We are now in the process of establishing U.S. standards for canola to meet the needs of the market place. This is the first new standard since 1984. As the economic importance of canola increases, U.S. standards will enhance the marketability of this oilseed.

Our work to establish more objective grain grading methodology and to refine existing procedures will continue. Initiatives in the fiscal year 1992 budget include: Continuing work on the benefits and costs of cleaning U.S. grain, mandated by the Food, Agriculture, Conservation and Trade Act of 1990; expanding programs in the detection of insect infestation, with increased emphasis on hidden infestation; field testing prototype odor detectors; improving the procedures for the calibration of instruments; and continuing work on near infrared reflectance and near infrared transmittance analysis of the constituents in grains.

Initiatives involving equipment specifications and tolerances and automation will continue.

Quality assurance and management training will also continue, with emphasis on providing state-of-the-art training for the professional inspectors within the official inspection and weighing system and FGIS.

FISCAL YEAR 1990 PROGRAM

During fiscal year 1990, FGIS and delegated States inspected 114.3 million metric tons of export grain; this is slightly more than the 114.1 million metric tons inspected for export in fiscal year 1989. While volume was up slightly, the actual number of inspections declined due to increased efficiencies at the elevators. There were 186,470 inspections in fiscal year 1990, this is a decrease from the 198,617 inspections conducted in fiscal year 1989. Our inspection and weighing activities show a severe decline during the first quarter of fiscal year 1991.

Increased public awareness of the presence of mycotoxins in corn played a definitive role in FGIS programs in fiscal year 1990. FGIS initiated an evaluation of commercially-available aflatoxin test kits that report the actual parts-per-billion of aflatoxin present. These kits were also evaluated for their ability to measure aflatoxin in commodities and grains other than corn. The Agency has approved and is now using one of these kits for field office inspections.

The Agency also worked closely with representatives from the Government of Mexico to address their concerns about aflatoxin contamination in corn and other commodities exported from the U.S. into Mexico.

Public awareness of food safety resulted in increased work on methods to identify chemical residues in grain. A gas chromatograph/liquid chromatograph/mass spectrophotometer is being used to develop a baseline of data to evaluate levels of common pesticides that might be found on grains and oilseeds. The Agency also purchased a supercritical fluid extraction apparatus which extracts pesticide residues using liquefied carbon dioxide. This technique takes minutes rather than hours and will reduce analysis costs by approximately 90 percent.

FGIS is working with the Agricultural Research Service to design an odor detection device intended to reduce the inherent safety and health risk associated with determining odors in grain. An odor detector equipped with a filter capable of preventing the inhalation of fine particles, e.g. mold spores, may also enhance the inspector's ability to uniformly and consistently perceive off-odors in grain.

The FGIS Compliance Action Plan consists of an aggressive and ambitious review and evaluation process. We have included unscheduled, unannounced reviews and immediate investigation of identified or reported violations of the USGSA. Followed by corrective action in the form of criminal prosecution, as appropriate, and administrative sanctions, including the assessment of civil penalties.

Two criminal charges were obtained on cases related to violations of the USGSA. In one case, involving adding urea to increase protein content, two owners of a grain firm were placed on probation and each fined $250,000. In the second case, two past owners of a grain storage elevator pleaded guilty to mail fraud and bribing a licensed inspector. One individual was given a prison term, the other probation. They were also ordered to pay $271,000 in restitution

The FGIS Advisory Committee established under the U.S. Grain Standards Act (USGSA) to advise the Administrator on matters pertaining to the implementation of the USGSA met four times in fiscal year 1990. The Committee was active on issues involving grain quality legislation, wheat dockage and foreign material, soybean protein and oil testing, financial management, safety, the Office of Technology and Assessment grain study, sunflower seed oil calibration, aflatoxin testing, research and technology.

EQUAL EMPLOYMENT OPPORTUNITIES/COOPERATION WITH HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

FGIS managers are cooperating with the Department in implementing the work force diversity program. All employees have been apprised of necessary actions to support equal employment for women and minorities.

We have a representative on the Cooperative State Research Service coordinating committee for the Capacity Building Grants Program. This committee awarded a grant to the University of Arkansas-Pine Bluff to initiate a degree program in Regulatory Sciences. An FGIS representative will participate, along with other USDA agencies, in the development of this program.

SAFETY

During fiscal year 1990, 18 grain dust explosions occurred, compared to 10 recorded in fiscal year 1989. FGIS has given increased emphasis to the safety and protec-

tion of our employees, considering the hazardous conditions involved in grain inspection work.

FOREIGN COMPLAINTS

Foreign complaints have been on a downward trend; there were 35 in fiscal year 1988, 25 in fiscal year 1989, and 22 in fiscal year 1990.

INTERNATIONAL AFFAIRS

In cooperation with U.S. Wheat Associates, U.S. Feed Grains Council, and other USDA cooperator organizations, FGIS arranges for foreign teams, scientists, and technicians, etc., to visit FGIS facilities for briefings on our program activities. In fiscal year 1990, representatives from 24 countries participated in this program. Frequently, a team will visit our Washington office then travel to the FGIS Kansas City Technical Center to observe grain grading procedures and to gain "hands on" experience. Visits to a local grain elevator, an export facility, and an FGIS field office often complete the tour.

FGIS frequently assists in grain grading seminars and in establishing grain laboratories in importing countries. These activities usually are performed at the request of USDA cooperators and funded by the Foreign Agricultural Service.

CLOSING

Mr. Chairman, this concludes my testimony. I would be glad to answer any questions you or other members of the Committee may have at this time.

OFFICE OF THE GENERAL COUNSEL

STATEMENT OF ALAN CHARLES RAUL, GENERAL COUNSEL

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss the Office of the General Counsel's fiscal year 1992 appropriation request.

INTRODUCTION

The Office of the General Counsel (OGC) is the law office for the Department of Agriculture. As an independent, central agency within the Department, integrating all the Department's attorneys, OGC is responsible for providing legal advice and services for all programs, operations, and activities to the Secretary of Agriculture and each of the Department's 42 agencies, staff offices and corporations. Our full staffing levels are approximately 260 attorneys and 146 support staff in the Washington D.C., headquarters and the 22 field locations that comprise our five regions across the United States.

FISCAL YEAR 1992 BUDGET REQUEST

For fiscal year 1992, we are requesting $25.9 million in direct appropriations. This request represents an increase of $2.7 million over the fiscal 1991 level of funds. Of the requested increase, $1.3 million is for general expansion of staff and $1.4 million is to cover pay cost increases.

GENERAL COMMENTS

The overall staffing level for OGC has remained relatively constant over the past 20 years. But for the addition of six pilot offices introduced in the early 1980's, which were designed to handle only legal work for the Farmers Home Administration, and 13 staff years provided in fiscal year 1991 for pre-decisional environmental legal work for the Forest Service, no substantial additions to staff have been sought or received. During the same 20-year period, OGC responsibilities and workload have grown dramatically.

Constant legislative changes have modified existing programs and added new programs resulting in tremendous numbers of new and more complex legal questions, more regulatory work and substantial litigation. Every enactment of a new farm bill has brought major changes and manifold new legal complexities to the farm programs, the food stamp and other feeding programs, the Farmers Home Administration lending programs, and the Department's numerous inspections programs. In addition, many government-wide statutes have increased the Department's legal re-

sponsibilities in such areas as civil rights and personnel, freedom of information, privacy, advisory committee management, procurement, contract disputes, civil service reform, and government ethics. Also, there have been new national forest management mandates, combined with the increased application of complex major environmental laws. Significantly, the Department's activities and programs are increasingly being conducted as is appropriate through regulations promulgated under the Administrative Procedure Act. This creates considerably greater need for legal attention and review among the program agencies. The additional workload in all OGC program areas has been matched by corresponding increases in litigation demands, generally in the nature of preparing cases arising in the agencies for referral to Justice.

Not only is the strain on OGC staff considerable, but the Department is not getting the legal counsel it requires. The office has been operating largely in a "crisis" mode for much of the past few years. In too many cases, OGC attorneys are unable to be involved at the planning or predecisional stage of client agency initiatives. This means that legal problems are not avoided early on, they can only be mitigated later.

OGC's client agencies have indicated they find the quality of OGC's work to be good but the quantity lacking. Most of the agencies recognize the need to increase OGC staff to obtain the support needed for their agency.

GENERAL EXPANSION OF STAFF

I am requesting an increase of $1.3 million and 22 staff years. New legislation, new regulations and increased litigation, have intensified our client agencies' demand for legal services even more than was predicted a few years ago and have increased OGC's workload. This is not going to change in the foreseeable future. To provide a sense of the issues and agency demands facing OGC, I would like to summarize the work situation and some of the problems faced by our divisions.

Food and Nutrition Division.—Numerous and complex amendments in the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT) will bring about significant changes to Food and Nutrition Service programs during fiscal year 1992. Fiscal year 1992 will also see final implementation of the 1988 amendments to the Food Stamp Act of 1977 which impose entirely new responsibilities. For the first time, OGC will be required to conduct complex administrative litigation before the Department's Administrative Law Judges on all state Food Stamp Program quality control appeals. The initial round of cases may involve as many as 42 states and more than $180 million in claims.

International Affairs and Commodity Programs Division.—The goal of increasing exports has substantially increased the workload in the international affairs area. The International Affairs and Commodity Programs Division will continue to be involved in major General Agreement on Tariffs and Trade (GATT) dispute settlement proceedings. The President's proposed initiatives with respect to the Latin American countries and Caribbean area will also increase the legal work for this division. If the Uruguay Round negotiations are successful, the Office will be involved with implementing changes resulting from those negotiations. If they are not successful, there will no doubt be even more agricultural trade disputes brought before the GATT and United States Trade Representative, which will require extensive OGC involvement.

The increased emphasis on conservation and environmental issues has and will continue to increase the work of the International Affairs and Commodity Programs Division. Because of the workload, only priority items can now be handled in a timely manner.

Marketing Division.—Over the past five years, there has been a steady increase in requests for legal services in our Marketing Division. One of the principal reasons for this has been the addition of new programs and expansion of existing statutory authorities. During this period, the Department, pursuant to new statutory authorities, established new research and promotion programs for beef, pork, honey and watermelons. In addition, the 1985 Farm Bill expanded significantly the Secretary's authority under the Animal Welfare Act and extended the Secretary's jurisdiction under the Virus-Serum-Toxin Act to all veterinary biologics including those manufactured and shipped in intrastate commerce. The Agricultural Marketing Service has added several new marketing orders. Further, in 1988, Congress enacted administrative civil penalty authority for certain violations of marketing orders issued under the Agricultural Marketing Agreement Act. New grain quality authorities were given to the Federal Grain Inspection Service.

Regulatory Division.—The volume of work in the regulatory area, generated by the programs of APHIS, FSIS and AMS, has increased especially with respect to

complex litigation involving APHIS programs, FSIS rulemaking dockets and food safety legislation involving the regulation of pesticides and pesticide residues in food. There will be an increase in the need for legal services by APHIS with regard to the National Environmental Policy Act (NEPA) and other environmental matters, such as compliance with the Endangered Species Act, in connection with APHIS programs involving the application of pesticides. There will also be an increase in cases referred for criminal or administrative action concerning the shipment of prohibited fruit from Hawaii to the mainland. Other areas, such as the new Salmonella enteritidis (SE) regulations and activities of the SE Task Force will require additional legal efforts. Additional resources are needed to provide increased legal advice on environmental matters, additional predecisional legal advice, more training, and more timely review of rulemaking dockets and food safety legislation.

Trade Practices Division.—The demand for legal services by the Trade Practices Division will continue to increase during fiscal year 1992, with the major increase in the area of Perishable Agricultural Commodities Act (PACA) reparation cases. Prior to 1985, the Division received about 200 PACA reparation cases a year. Since 1985, the number received has averaged about 300 per year. Based on current referrals, the Division will receive about 400 cases per year. This will cause a backlog and increase the time necessary to decide these cases.

The Division's principal responsibility of prosecuting administrative enforcement cases under the Packers and Stockyards Act (P&SA) and the PACA continues to create an increased workload. While the number of cases is fairly constant, more cases are being litigated because of a more severe sanctions policy by the agency, thus requiring more attorney time to prepare and prosecute these cases. In addition, the Division has received new responsibilities in connection with PACA statutory trust, "clear title" provisions of the 1985 Farm Bill, a P&SA poultry trust, and new poultry administrative enforcement jurisdiction. All of this means that the PACA reparation case backlog is increasing, statutory trust matters receive only minimal legal resources, and little assistance is provided the agencies during the investigational stages of cases.

Research and Operations Division.—There is a pressing need to dedicate more legal resources to the work of the science and education agencies by our Research and Operations Division. Because of expanded programs, such as competitive grants and changes to existing programs, legal services are required on a continuing basis for the interpretation and application of program legislation and appropriations; the negotiation, award and administration of research contracts, grants, cooperative agreements, and cooperative technology transfer agreements; patent prosecution and licensing; and compliance with Federal, State, and local environmental laws and regulations. For example, an increasing amount of time is required by OGC to advise the agency and review the environmental assessments that the Department's research agencies must prepare prior to funding deliberate release experiments. At present, we are providing advice sporadically. With the publication on February 1, 1991, of proposed guidelines on research in biotechnology we anticipate in the ensuing months more proposals, submitted to the Department, for biotechnology research. At the current staffing level, we will not be able to review these proposals in a timely manner, which could impede our ability to compete with foreign countries in this emerging area.

With the increased emphasis by the Administration on the environment and the increased level of research anticipated for fiscal year 1992, we expect that the legal services required in the area of hazardous waste will intensify. We are able to provide legal advice only after violations occur. There is a need to develop a preventive program.

Increased legal resources are needed in the procurement area to enable the Research and Operations Division to strengthen its involvement in Department procurement policy through more thorough and complete review of proposed laws, regulations and directives, and to resume representation of Department agencies in protest actions filed with the General Accounting Office. For example, because of lack of resources we have had to stop representing USDA agencies in procurement protests filed with the General Accounting Office. Last year, 80 such protests were filed. We believe that currently we are the only Federal legal office that does not provide representation for its client contracting officers in such matters. Our current staffing level also does not permit us to routinely advise the Department contracting officers on performance problems and the handling of claims. As a result, it is unknown how many claims could be avoided and how many invalid claims are paid in order to avoid disputes.

The Federal Acquisition Regulations require that determinations to debar or suspend contractors from doing business with the Government be reviewed by legal counsel and decisions to debar may be appealed to the Agriculture Board of Con-

tract Appeals. Activity in this area is expected to increase and the need for additional legal services will increase proportionately.

The Equal Employment Opportunity Commission (EEOC) has recently notified the Department that EEO officials will not be permitted to represent an agency at hearings on EEO complaints involving that agency, as they currently have been doing in many cases. Additional legal resources are required to provide representation for USDA agencies in these hearings before the EEOC, as well as in hearings before the Merit Systems Protection Board and the Federal Labor Relations Authority.

Legislative Division.—The volume of Congressional testimony referred to the Legislative Division for clearance has approximately doubled over the past ten years. The volume of OMB requests upon which OGC must comment has also increased substantially. There is every reason to expect that the increase in the number of matters handled in the next few years will not abate.

Litigation Division.—Attorneys in our Litigation Division specialize in appellate litigation. In recent years there have been ever increasing demands for legal services associated with this litigation. These demands reflect a general tendency to be litigious. In fiscal year 1990 Division attorneys had full responsibility for 33 appellate cases, and they obtained favorable results in 14 of the 19 cases decided by the United States Courts of Appeals. In addition, Division attorneys reviewed and made contributions to many briefs and arguments presented in other important appellate cases involving the Department's programs but handled by Justice Department attorneys, and the Division prepares the Department's recommendations to the Solicitor General on whether to appeal adverse decisions of various courts.

Electric and Telephone Division.—The Electric and Telephone Division provides all of the legal services to the Rural Electrification Administration (REA) and the Rural Telephone Bank. The core of REA's program is to assist the electric utility industry. That industry finds itself at the center of nearly every environmental debate, be it air pollution, water pollution, electromagnetic fields, PCB's, hazardous wastes or global warming. This fast developing, often controversial, body of environmental law will demand greater attention. REA projects will require greater environmental review to assure compliance with the National Environmental Policy Act and to withstand the legal challenges that are more likely to come.

In addition to the increased environmental work, changes in the law, the industry, and the client's mission have all resulted in changes in the nature of the Electric and Telephone Division workload. These are manifested in complex litigation, utility bankruptcies, debt restructuring and conflicts with State public service commissions. This type of legal work is non-standardized, labor-intensive and extremely complex. Supplemental financing arrangements to facilitate private financing are also more complex and lengthy. An REA effort to rewrite and reorganize its existing regulations, bulletins, and staff instructions over a period of years has also required additional legal assistance.

Natural Resources Division.—Our Natural Resources Division provides program advice to the Forest Service and the Soil Conversation Service. Relevant statutes that affect the programs of these agencies have increased substantially in the past 20 years. These include the National Environmental Policy Act, Endangered Species Act, National Forest Management Act and other major environmental laws. Requests for legal services and litigation support have increased proportionately. For example, there have been significant workload changes in the areas of timber sale contract defaults and disputes, administrative appeals, disposition of mineral and energy resources occurring on National Forest System lands, hazardous waste and natural resources damage recovery, and litigation involving land and resource management plans and water rights.

Controversies involving the spotted owl in the Pacific Northwest, preservation of old growth, biodiversity, global warming, the Mt. Graham red squirrel, the red-cockaded woodpecker in the Southeast and hundreds of forest plan administrative appeals reflect the rapidly expanding need for legal resources.

As a result of the increase in higher priority matters, some work such as the handling of opinion and counseling requests have had to be delayed. Longer term problems such as timber sale contract revision and Forest Service and Soil Conservation Service Manuals and Handbook reviews have been deferred. Timber sale contract default litigation and debt collection have not received the vigorous treatment deserved.

Legal assistance to the Soil Conservation Service, particularly with regard to appeals and specific compliance problems, is increasing as the final phase of compliance under the Food Security Act of 1985 is implemented.

Community Development Division.—Farmers Home Administration legal work will continue to increase for the Community Development Division. About 90 per-

cent of the pending 30,000-plus law suits involving USDA are FmHA cases. Although these cases will be handled primarily by the field offices, the coordination and resolution of new legal questions arising from the Consolidated Farm and Rural Development Act, the Housing Act of 1949, and other FmHA legislation will result in additional work in Washington. There is also a need to provide additional legal assistance earlier in the regulation writing process.

Field Offices.—The field offices have responsibility for about 96 percent of all the litigation involving the Department. The largest number of cases arises from the activities of the FmHA. The need for legal services by FmHA in all their activities, but particularly with regard to rural housing and farmer program matters, will continue to increase.

The projected workload of OGC field clients raises two organizational challenges in meeting traditional and new demands for legal services. First, current and future workload response requires a strong Regional OGC structure which has the centralized capability to provide for a sophisticated and reliable exchange of information, coordinated and consistent legal services throughout the Region, and flexibility to provide highly specialized direct legal support and training to clients and OGC branch offices. Second, the agency clients' needs necessitate an increased capability of OGC to provide decentralized legal assistance to the Forest Supervisor, District Ranger, and District, State and County FmHA, ASCS and SCS offices. These challenges and needs will result in additional demands on OGC.

Work for the Forest Service (FS) is performed by all the regions. All aspects of FS work will be heavy with strong activity in such areas as land acquisitions and exchanges, claims work, contract servicing, oil and gas and other mineral leasing, and hazardous waste matters. Environmental litigation will continue to demand increased legal services, and administrative appeals of Forest Service decisions will increase substantially. Predecisional environmental work demands will be the heaviest ever experienced by the Office.

Summary.—In the face of the increased workload, it has become even more difficult to provide timely and effective legal advice and service. The most usual result of the backlog has been delay in reviewing and clearing agency rulemakings and correspondence, and in providing legal advice within requested timeframes. An equally important result has been the impairment of the ability to provide critical advice at an early stage when agency policy is being developed and key decisions are made.

Overall service to OGC clients can and should be improved through earlier involvement in the rulemaking and legislative processes and through special projects and initiatives, such as client training.

OGC cannot provide the pre-decisional counsel the clients want and inevitable delays in responding to requests for legal advice often deter clients from asking. Additional resources are needed to change the current pattern meaningfully in order to provide the Secretary and the Department's agencies with legal services that approach an appropriate level.

New resources would be used to reduce backlogs, reduce the time now required to review matters, particularly those important matters which have not yet reached the crisis stage, provide increased preventive law involvement and counsel, and generally increase the level of legal services provided by the Office. Particular emphasis would be placed on providing additional services in the procurement and EEOC hearings areas. Consideration will also be given to alleviating the extreme shortage of secretarial assistance for attorneys serving in the Washington headquarters.

The Office of the General Counsel has as broad a range of responsibilities as any agency in the Department and is uniquely positioned to impact all of the operations of the Department. There is not a single agency in the Department that does not rely on us for legal advice, and is not impaired by our limited resources. The more timely and effective we can make our advice, the better off the entire Department will be.

INCREASED PAY COST

The request includes $1.4 million in pay cost increases. Because our budget consists primarily of funds for personnel compensation, we have no way to absorb pay rate increases other than to reduce our staff. Therefore, these funds are essential to our financial situation.

CLOSING

The budget request for fiscal year 1992 is a modest one that will allow us to provide the Secretary and the Department's agencies with legal services that approach

a reasonable level and also enhance the client agencies' ability to accomplish their own respective missions.

That concludes my statement, Mr. Chairman. We appreciate the support this Committee has given us in the past. I respectfully request that you approve our budget request so that we can meet the challenges of our legally oriented society and maintain the quality and level of legal services to the Department. I will be happy to answer any questions you and the Committee members may have at this time. Thank you.

Office of Inspector General

Statement of Leon Snead, Inspector General

Mr. Chairman, members of the Committee, I appreciate the opportunity to appear before you today to discuss the activities of the Office of Inspector General (OIG) and to provide you with our views on some of the major programs and activities of the Department of Agriculture.

In fiscal year (FY) 1991, our audits and investigations continue to address those areas where large dollar losses could occur. Special emphasis is being placed on financial management, entitlement programs, direct and guaranteed loan programs, public health and safety issues, and export credit programs.

I am proud to say that OIG continues to "pay for itself." In fiscal year 1990, OIG identified: $40.4 million in recoveries, collections, fines, restitutions, and administrative penalties to be returned to the U.S. Treasury; $32.8 million on which management agreed to seek recovery; and $582.5 million for which management made commitments to use funds more efficiently. Also, OIG efforts resulted in over 800 criminal indictments and nearly 700 convictions.

With this is a backdrop, I would like to briefly outline our main areas of concern.

ENTITLEMENT PROGRAMS

The Food and Nutrition Service (FNS) administers major entitlement programs, accounting for about one-half of the USDA's total budget. In the past year, my office performed audits and investigations of a number of major FNS programs, including the Food Stamp; Women, Infants, and Children; and Commodity Programs.

Food Stamp Program

During fiscal year 1990, we devoted about one-third of our investigative resources to investigations of fraud in the Food Stamp Program. We completed 806 food stamp investigations which resulted in 618 indictments, 428 convictions, and over $7.1 million in fines, penalties, restitutions, recoveries, and administrative claims.

While OIG's investigative activities in the Food Stamp Program are primarily focused on fraud by retailers authorized to accept food stamps, we have noted a trend by those illegally trafficking in food stamps to be dealing in illegal drugs as well. The number of trafficking investigations which also involved the purchase of illegal drugs with food stamps increased from 5 in fiscal year 1987 to 150 in fiscal year 1990. For example, two investigative operations in Texas resulted in the arrest of 116 individuals for food stamp trafficking and narcotics violations. The operations, conducted jointly with local and State law enforcement officers, also included the arrest of FNS authorized retailers.

Another investigation involved a year long operation in Michigan that resulted in the arrest of 60 individuals, 30 of whom were owners or employees of FNS authorized retail firms. During this operation, undercover agents exchanged over $75,000 in food stamps for cash, cocaine and other narcotics, guns, and counterfeit United States currency. Prosecution of all 60 individuals is pending.

A third example involved a 14-month investigative operation in which Federal grand juries in Mississippi indicted 49 individuals, including the owners or employees of 17 FNS authorized retail stores, for trafficking in food stamps. Of those indicted, 12 were also charged with conspiracy or drug-related violations. The indictments alleged that the individuals purchased about $23,000 in food stamps in exchange for $12,800 in cash and quantities of illegal drugs. Sentencing is pending on 48 individuals and a trial is pending on one.

Other fraud activities in the Food Stamp Program involved a retail grocer in Ohio who illegally redeemed more than $2 million worth of food stamps between October 1984 and March 1989. The grocer was sentenced to 8 years in prison and ordered to pay $2.1 million in restitution after he pled guilty to money laundering and unauthorized possession and redemption of food stamps. Our agents had witnessed the grocer, who had been disqualified from the Food Stamp Program, give large quanti-

ties of food stamps to a second authorized grocer. The second grocer deposited the food stamps into his firm's bank account, cashed a check for a corresponding amount, and gave a portion of the cash to the unauthorized grocer. The authorized grocer also pled guilty and was placed on probation. This case was conducted jointly with the Internal Revenue Service.

A final example involved an investigation conducted in Texas and California which resulted in the Federal indictment of four individuals on charges of illegally transferring or redeeming $675,000 in food stamps. An FNS authorized retailer and an associate in Texas were charged with transferring illegally obtained food stamps to a second FNS authorized retail store owner and his wife in California. The owner and his wife were charged with illegal redemption of the food stamps. Prosecution is pending.

The 1990 Farm Bill contained several Food Stamp Program provisions which we strongly supported. The maximum fine for illegal possession of food stamps valued in excess of $100 was doubled to $20,000, and the penalty for illegal possession of $5,000 or more in food stamps was raised to a maximum fine of $250,000 and imprisonment for up to 20 years. For the first time, criminal penalties were prescribed for the illegal acquisition of food stamp benefits by means of electronic access devices. Widespread testing of electronic benefit transfer devices for the distribution of food stamp benefits to eligible recipients created the need for this provision. The Department was also granted the authority to "periodically reauthorize" food stores licensed to accept food stamps and to require the submission of Social Security Numbers of officers and owners of retail firms and the Employer Identification Number of applicant firms.

The Food and Nutrition Service estimates that as many as 25 percent of the approximately 220,000 authorized retailers are violating Food Stamp Program provisions. We believe that the increased fines will discourage food stamp fraud. At the same time, the reauthorization process will enable the FNS to update retailer information and use the data to identify, through computer analysis, those retailers most likely to defraud the Food Stamp Program. The collection of this identifying data will help the FNS to guard against offenders from becoming reauthorized to accept food stamps under fictitious names at new locations.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

During the past year, we have reported the results of our individual State audits of administrative costs claimed by States for reimbursement under the WIC program. In 10 audits, we identified overclaims exceeding $7.3 million. Inadequate monitoring procedures contributed to problems which included reimbursement for non-allowable salaries of employees, claims for improper costs, and charges for inappropriate expenses. The FNS has initiated collection of the overpayments. We also identified additional annual savings of over $1.7 million primarily because non-WIC staff would not continue to be included in the administrative costs charged to the WIC program. Based on our audit recommendations, agency officials are also developing more effective review methods, monitoring implementation of corrective actions, and ensuring that future non-Federal single audits focus on the types of problems disclosed during our reviews.

Commodity Programs

During 1990, we continued to audit food processors who convert commodities donated by the USDA into end products used in FNS programs. We recently completed several reviews and found overclaims of about $1.1 million resulting from food processors not fulfilling contractual agreements. We found that the processors did not always: use the specified quantities of the donated commodities in the products, credit contracting agencies for the value of by-products, replace commodities or reimburse the contracting agencies for the value of production losses incurred, or comply with requirements to maintain records supporting their processing of donated foods.

An investigation of one of the largest food processors of pizza for the Child Nutrition and School Lunch Programs resulted in the payment of $2.25 million in a claim settlement. The company had diverted more than $1 million of the USDA-supplied cheese that was to be used on pizzas and other products for the School Lunch Program. The settlement represented approximately double the value of the diverted cheese. In addition, two company management officials pled guilty to charges and six other company employees signed pretrial diversion program agreements in lieu of prosecution.

DIRECT AND GUARANTEED LOANS

The Farmers Home Administration (FmHA) provides lending assistance to help family farms, finance rural housing, develop community facilities, and create and maintain rural employment. Because of the complexity of the programs and the problems noted over the years, we continue to place emphasis on areas where we believe we can enhance the effectiveness of these programs.

Debt Restructuring Program

One program area we examined during fiscal year 1990 was the Debt Restructuring Program of the Agricultural Credit Act of 1987 that provides for the writedown or writeoff of delinquent Farmer Program debt. When the Act was implemented in November 1988, the FmHA had more than 66,000 borrowers who were delinquent on debt of about $8.8 billion. More than 50 percent of these borrowers had been delinquent for more than 4 years, and more than 80 Percent had been delinquent for more than 3 years. The magnitude and age of this debt were caused by several factors. Lending authority for emergency loans in the 1970's was without monetary limits and, thus, greatly expanded the overall indebtedness. Collection efforts on delinquent accounts were slowed, then halted, as a result of the "Coleman/Block" decision. This decision barred the FmHA from foreclosing on delinquent borrowers from 1983 through 1988. As a result, repayments due to the agency were withheld by borrowers during this period without reprisal, as interest continued to accrue.

In March 1990, we testified before the Senate Subcommittee on Agricultural Credit on the results of our review of the loan portfolios of 74 borrowers who had each received writedowns or writeoffs of $1 million or more. Our analysis disclosed that 72 percent of the program losses incurred were for emergency or economic emergency loans, and that these losses would have been avoided had the current loan making provisions been in effect at the time of the original loan application. Some of the changes in the law included: The elimination of emergency loans for major adjustment purposes which consisted, in part, of refinancing existing debt; the establishment of a $500,000 loan limit when an actual loss is incurred; and the rescission of the Economic Emergency Loan Program.

We also testified at the same hearing in support of several of the Department's proposals to strengthen the Debt Restructuring Program. For example, we endorsed the elimination of a legislative loophole, disclosed by the OIG, which permitted borrowers who had not acted in good faith to obtain writeoffs. In addition, we supported a proposal to value inventory property offered for sale to the prior owner at the market value rather than through the capitalization method which estimates income flow. OIG had also disclosed these program weaknesses in a prior audit. We were pleased to see that these changes were passed in the fiscal year 1990 Farm Bill.

Emergency Loan Program

We performed a review of the fiscal year 1989 Emergency (EM) loans made to offset the extensive crop damage throughout the country caused by severe droughts and other natural disasters in 1988. Nationwide, the FmHA made more than 2,800 emergency loans in fiscal year 1989 totaling $73.5 million. In our review of 71 loans totaling $2.1 million, we examined the procedures used to determine borrower eligibility and to make loss calculations, and identified excessive loans approved for 43 borrowers totaling $600,000. The Farmers Home county officials had not: (1) Determined borrowers' disaster or normal year acreages and yields properly, (2) reduced the loan amounts by the borrowers' Agricultural Stabilization and Conservation Service (ASCS) and Federal Crop Insurance Corporation disaster benefits, (3) deducted harvesting costs which were not incurred when crops were completely destroyed, (4) developed feasible repayment plans, and (5) properly coordinated with the ASCS to determine the borrowers' records of acres and yields to ensure loan amounts were computed correctly.

Officials of the FmHA agreed with our recommendation to implement procedures that will assure that emergency loans would be made correctly. They have initiated a process to improve training, expand upon second party reviews, develop a loan-processing checklist to ensure proper loans, and revise their Memorandum of Understanding with the ASCS to ensure proper coordination with that agency.

Interest Rate Reduction Program

The Food Security Act of 1985 authorized the FmHA to enter into agreements with lenders to reduce interest rates on guaranteed farm loans. Eligible borrowers include operators of family-size farms who are unable temporarily to project a positive cash flow without the reduced interest rate. The FmHA shares the cost of the reduced interest rates by making annual interest rate buydown payments to partici-

pating lenders. These payments amount to the lesser of 2 percent of the loan or 50 percent of the cost of reducing the guaranteed loan interest rate.

In our review of the program, we found that administrative controls did not ensure that program benefits were provided only to eligible borrowers and that loans were processed properly. Buydown loans processed in fiscal year 1988 and 1989 contained significant deficiencies in cash flow and documentation similar to those disclosed by our prior audit in 1987. Of the 24 borrowers reviewed in the current audit, 22 were ineligible for buydown subsidies, and 9 of the borrowers reviewed were also ineligible for subsidized loan guarantees. These borrowers received over $353,000 in ineligible loan guarantees.

The FmHA agreed to require State offices and lenders to correct the errors cited including the revision of promissory notes. Instruction and training was provided on the correct preparation of program documents. County supervisors have been required to check the accuracy of promissory notes.

ACCOUNTING AND FINANCIAL MANAGEMENT

Audits of Financial Statements

The Chief Financial Officers Act of 1990 requires the preparation and audit of Government financial statements. The Department is part of a pilot effort specified in the law, and we have begun actions to comply with the requirements of the Act. Specifically, we are currently auditing the fiscal year 1990 financial statements of the Farmers Home Administration (FmHA) and the Commodity Credit Corporation (CCC). In addition, we are overseeing the audits conducted by independent public accountants of the fiscal year 1990 financial statements of the Federal Crop Insurance Corporation (FCIC), the Rural Electrification Administration (REA), and the Rural Telephone Bank. During fiscal year 1992, OIG will either perform or contract for financial statement audits of the FmHA, the CCC, the FCIC, the REA, the Rural Telephone Bank, the Food and Nutrition Service, and the Forest Service. Also, we plan to conduct an audit of the Departmentwide consolidated financial statements. These audits will fulfill the requirements of the legislation in fiscal year 1992.

Debt and Credit Management

During fiscal year 1990, we completed audits of debt and credit management initiatives in both the Forest Service and the FNS. We reported that the agencies had not fully implemented the debt and credit management standards set forth by the Office of Management and Budget and the U.S. Treasury. Because of this deficiency, both agencies had material misstatements of accounts receivable balances, namely, their net realizable value, and collection status. The Forest Service and the FNS have agreed to take action to correct these deficiencies. During fiscal year 1991, we will conduct audits of debt and credit management in the ASCS and the FCIC.

Cash Management

Our audit work in the cash management area continued in fiscal year 1990. We reviewed the loan collection processes in the ASCS and the FmHA. We also reviewed collection and deposit controls in the Department as part of a governmentwide audit. We found that the ASCS could save over $2.6 million annually by increasing its use of the Concentration Banking System and other cash concentration systems. We made recommendations to the ASCS and the FmHA to improve their cash management procedures. Both agencies agreed to implement corrective actions to increase internal controls over collection activities. In addition, ASCS officials agreed to expand their use of concentration banking.

We also reviewed the Federal Crop Insurance Corporation cash management practices with reinsured companies. We determined that the FCIC could reduce program outlays by over $10 million annually by discontinuing reimbursement of reinsured companies for State premium taxes. The FCIC officials agreed to modify its Standard Reinsurance Contract to exempt insurance premiums from State taxation. We plan to continue our evaluation of the FCIC cash management practices during fiscal year 1991.

CONSUMER PROTECTION

Potential threats to the health and safety of the public continue to be a high priority of OIG. For example, an OIG investigation disclosed that officials of a New Jersey meat processing corporation had illegally added excessive water to ham products, paid bribes to the USDA Food Inspectors, and falsified reports submitted to the USDA. The corporation agreed to plead guilty and pay a $1 million fine. Three top corporate officers also agreed to plead guilty, pay fines totaling an additional $1 million, and pledged their cooperation in the disclosure of criminal acts by others.

As a result of the cooperation by the three corporate officers, four USDA Food Inspectors recently pled guilty to receiving bribes from the plant officials. Sentences for the four ranged from probation to 6 months incarceration with fines of $8,000 to $10,000.

Labeling Approval Policies and Procedures

The Federal Meat and Poultry Products Inspection Acts require that meat and poultry products sold in interstate commerce be wholesome and unadulterated, and marked, labeled, and packaged properly. The Food Safety and Inspection Service (FSIS) approves product formulas and labels to ensure that the products conform to established standards for quality, identity, and composition.

We conducted an audit to assess the label-approval process and found that while the number and complexity of labels requiring approval has increased over the past 6 years, the number of label reviewers has remained constant. The resulting decrease in time available to review each label has led to errors. Of 408 labels we reviewed, we questioned 107. We found that formulas or product names were inconsistent with standards; applications lacked sufficient documentation; and approved labels did not list ingredients in the proper order, omitted significant ingredients, or contained misleading declarations. For example, although one label gave the product name as "Flame Broiled Beef Strip," the product was made from ground beef and soy protein which the FSIS policy required to be descriptively labeled, such as "Ground Beef and Soy Product."

In addition, we questioned whether the FSIS had adequate procedures to ensure that heat processed products containing both meat and poultry were processed safely. The FSIS requires minimum cooking temperatures of poultry products because of the high incidence of salmonella in undercooked poultry. However, the FSIS classified any product which contained more meat than poultry as a meat product and did not require it to be cooked to the temperature required for poultry products.

We recommended that the FSIS improve controls over labeling. We further recommended that the FSIS verify and enforce all claims associated with the USDA inspection legend. The FSIS officials responded that label reform was one of the agency's major areas of emphasis, as redirection was needed to keep pace with new technology, changing consumer expectations, and emerging health concerns.

MARKET DEVELOPMENT

GSM 102/103 Export Credit Guarantee Program

In December 1990, audit and investigative reports were issued related to tobacco exported under the Foreign Agricultural Service (FAS) Export Credit Guarantee Program. We found that 31 companies, consisting of 14 firms and 17 affiliates, exported foreign tobacco which they represented to be United States tobacco in 102 of the 115 General Sales Manager (GSM) loan guarantees. The loan guarantees totaled $134.7 million for 80.9 million pounds of tobacco. The foreign content accounted for 46.2 million pounds (57 percent) of the tobacco exported under the GSM 102 loan guarantees. Exports of foreign tobacco under the programs occurred because exporters misrepresented to the FAS and the Commodity Credit Corporation the origin of the exported tobacco. Also, the exporters did not disclose the foreign content to the foreign buyers nor to the banks that were assigned the GSM loan guarantees.

Our review further disclosed that seven companies, including six that exported foreign tobacco under the GSM programs, provided over $1.5 million in after-sale service payments that were transferred to foreign corporations. In violation of criminal statutes and the CCC regulations, exporters inflated the sales of tobacco exports on documents submitted to the CCC for which the GSM loan guarantees were obtained. The CCC became financially responsible for these payments because the GSM loan guarantee coverage was obtained.

As a result of exporting foreign tobacco and including after-sale service payments in the port values, tobacco companies received over $147.2 million in ineligible GSM Loan Guarantees. The CCC is considering initiation of suspension and debarment actions against the United States exporters and that the exporters be held financially liable for payment defaults.

Prior to issuing our audit, eight companies in North Carolina that exported foreign grown tobacco, of which six provided after-sale service payments, pled guilty to making false, fraudulent, and fictitious statements to the CCC. The eight companies were fined a total of $300,000, and six companies that provided after-sale service payments were ordered to make restitutions of up to $1.1 million to the CCC.

National Agricultural Statistics Service Data Collection Procedures

The National Agricultural Statistics Service (NASS) furnishes the ASCS with the aggregate market prices for various commodities which it uses to determine deficiency payment rates. We found that the NASS, in calculating the average market price, excluded price support benefits received by cotton and rice farmers from the ASCS marketing loan program or from the alternative loan deficiency program. This understated the amounts actually received by cotton and rice farmers and increased the ASCS program deficiency payments by about $164 million for the 1988 program year. The NASS also did not ensure that buyers provided accurate sales data resulting in overpayments of $23 million to cotton producers. The NASS agreed to improve data collection procedures. The ASCS is considering whether price support payments should be included in the average price when determining deficiency payment rates.

Payment Limitation

Producer adherence to payment limitations established by Congress for certain deficiency and land diversion payments continues to be an area of review by OIG. Over the last 5 years, we have found that one of the most common practices to avoid the payment limitation involved farm reorganizations. As producers with large operations reached the $50,000 limit, they reorganized to qualify for additional "persons." The Omnibus Reconciliation Act of 1987 changed the payment limitation rules effective for the 1989 crop year to limit the use of multiple legal entities. However, for 1989 only, the Act allowed for equitable farm reorganizations. Thus, farm operations were reorganized to earn maximum payments. The result may be that total program costs will not change from previous years. Rather, payments will be assigned to more "persons" created as a result of reorganization.

Disaster Assistance

The Disaster Assistance Act of 1988 authorized payments to eligible owners of livestock who suffered crop feed losses because of natural disasters. To obtain assistance, producers reported crop losses, feed on hand, livestock inventories, and cost of feed purchased.

Our review of $4.5 million in payments to 169 producers identified improper payments of $1.1 million to 48 producers. We found that producers reported revenue incorrectly, submitted inflated or fictitious feed invoices, reported fictitious disaster losses, reported livestock and losses inaccurately, and made computation errors. The ASCS is in the process of implementing necessary corrective action to improve the procedures for the 1990 program.

Conservation Reserve

Under the Food Security Act of 1985, a person entering land into the Conservation Reserve Program must have owned or operated the land for not less than 3 years prior to signing it up. The person receives an annual payment for each of the 10 years of the contract period, but the total annual income from all Program contracts for a "person" is limited to $50,000.

Reviews at 25 county offices in 9 States identified 54 questionable producers of which we selected 18 for further analysis. We found that the control procedures designed to ensure producer eligibility for the Program were not being followed at the county office level. Eight producers had received $1.3 million or were scheduled to receive $3.5 million in program payments for which they were not eligible. The ASCS officials agreed to take corrective action and to initiate a review of the other 36 cases.

Commodity Storage and Handling

In carrying out its various price support programs, the Commodity Credit Corporation contracts with public warehouses for storing and handling commodities in inventory or pledged as loan collateral. We found the actions taken by the CCC regarding warehouses with problems did not appear to be in the best interest of the CCC. The CCC incurred losses in excess of $11.2 million at these warehouses. We found that funds due the CCC totaling over $4 million for losses or shortages were waived even though the waiver exceeded the CCC officials' delegated authorities. Also, warehouses that continually violated the provisions of the storage contracts were neither terminated nor debarred for committing serious violations. In addition, in some cases, excessive storage and handling payments were made and the CCC-owned grain was sold at a loss of $2.3 million. The CCC has initiated corrective action to strengthen and improve its procedures for handling warehouses which have serious contract violations.

INSURANCE

Administration of Claims and Appeals

Our prior Federal Crop Insurance Corporation audit effort has focused on the adjustment of insurance claims. Our audits, as well as audits conducted by the General Accounting Office, found that many claims were adjusted incorrectly, which often resulted in overpayments to the insureds. Reinsured companies and the FCIC insureds were asked by the FCIC to return the overpaid amounts or provide justification why an overpayment did not exist. Demands for repayment can be appealed through the Corporation's administrative appeal system.

Our recent audit of the administrative appeal system found material weaknesses in the control process used to settle over $4.1 million in claims generated by audits or internal reviews. We also found different procedures being used to process appeals arising from claims adjusted by reinsured companies and claims adjusted by the FCIC. Additionally, there was no procedure for reviewing appealed claims to determine trends, problems, and control weaknesses. We concluded that the administrative appeal process was not effective as a means to identify and correct systemic problems.

NATURAL RESOURCES

The Forest Service (FS) manages over 191 million acres of the National Forest System, conducts a State and private forestry program, and provides national leadership in forest and range research.

Knutson-Vandenberg (K–V) Act Activities

The K–V Act authorizes the collection of funds from timber sale revenues to cover the cost of planting new trees and of protecting and improving the renewable resources on cutover lands. The K–V Act requires that any funds collected which exceed funds needed will be transferred to the U.S. Treasury.

Our audit found that national forests in four regions improperly retained $33.2 million (73.5 percent) of $45.2 million identified by the FS as of September 30, 1987, as excess K–V fund balances. The national forests kept the funds, in most cases, because regional offices approved retention of excess balances to offset projected future K–V deficits. We concluded that retention of the excess K–V funds was not in accordance with the FS policies and the K–V Act. For example, the national and regional offices did not evaluate sufficiently and follow up on annual K–V balance sheets submitted by national forests and did not establish adequate monitoring systems to verify that excess fund balances were transferred to the U.S. Treasury. In addition, the FS had not issued adequate K–V instructions; therefore, program direction did not ensure that regions determined their K–V needs and related costs correctly and consistently. Further, the FS program reviews were inadequate to ensure the propriety of K–V fund analyses by national forests.

We recommended that the applicable national forests return to the U.S. Treasury the $33.2 million in fiscal year 1987 excess K–V balances improperly retained. In addition, we recommended that the FS establish new procedures or strengthen existing ones to ensure that the K–V funds are properly retained, utilized or returned to the U.S. Treasury, where appropriate.

The Forest Service agreed with our recommendations and has developed a corrective action plan.

Soil Conservation Service

Several major programs designed to help individuals, groups, organizations, and State and local governments protect and improve conservation of land and water resources are administered by the Soil Conservation Service (SCS). Their activities are carried out in two basic areas: conservation operations, and watershed and flood prevention operations.

Conservation Plans

The Food Security Act of 1985 requires agricultural producers to implement certain soil and wetland conservation practices to remain eligible for the USDA farm programs. One provision of the Act requires each producer with highly erodible land to obtain an approved conservation plan by December 31, 1989, through the SCS and "actively apply" the plan over the next 5 years.

We reviewed 105 conservation plans from 11 SCS field offices in 7 States. Our audit disclosed that the SCS procedures were not specific enough to ensure that conservation plans clearly described the actions required for producers to comply with the conservation provisions of the Food Security Act. Of the 105 plans we reviewed, 98 did not provide sufficiently detailed information. Producers were unsure of how

and when they must act to comply with the plans. Additionally, the plans were not designed to provide reviewers with measurable criteria for assessing whether the producers complied with the plans. The internal reviews could not ensure that all plans met minimum requirements and that deficient plans were identified and corrected.

We recommended that the SCS establish the controls needed to accomplish the conservation objectives of the Act. The SCS agreed and has implemented a corrective action plan.

FISCAL YEAR 1992 BUDGET REQUEST

The fiscal year 1992 budget request for the Office of Inspector General is $65.3 million. This request is an increase of $9.7 million over the fiscal year 1991 budget of $55.6 million. Of this amount, $4.5 million will fund 48 additional staff years and the related activities necessary to audit, the financial statements for the FmHA and the FS, and for an audit of the Departmentwide consolidated financial statements required by the Chief Financial Officers Act of 1990. The increase will also provide funds for the pay increases mandated by the Federal Law Enforcement Pay Reform Act and additional funds for the administratively uncontrollable overtime pay increases established by Public Law No. 101–173. In addition, this request includes $2.3 million for the 1992 pay raise and $1.2 million for the annualization of the 1991 pay raise.

This concludes my statement, Mr. Chairman. I will be glad to respond to questions from the Committee.

NATIONAL AGRICULTURAL LIBRARY

STATEMENT BY MR. JOSEPH H. HOWARD, DIRECTOR

Mr. Chairman and members of the Subcommittee, it is a pleasure for me to appear before you today to explain the proposed fiscal year 1992 budget for the National Agricultural Library (NAL).

The National Agricultural Library is one of three national libraries of the United States. As you know, the other two are the Library of Congress and the National Library of Medicine.

Like our national library siblings, NAL has a vital role to play in the well-being of the nation. The hundreds of years of agricultural information amassed at NAL shares in the credit for making the United States the most productive agricultural nation in the world.

It is cliche to say that information is power. Put this is also a wonderfully accurate axiom. The information that NAL's staff labors to collect and protect gives the United States the power to feed itself and much of the world; it gives us the power to develop new and improved strains of crops that are resistant to disease and the extremes of weather; and the information contained at NAL has helped to make the agricultural know-how of the United States the envy of the world.

As evidence of this, in the last year alone, the National Agricultural Library has played host to visitors from the People's Republic of China, the Soviet Union, Czechoslovakia, Egypt and many other countries. All were looking to NAL for guidance in how to protect and manage agricultural knowledge.

In 1982, a special interagency blue-ribbon panel on the National Agricultural Library reported to the Secretary of Agriculture, and I quote: "A national agricultural library, using the most advanced computer and communications technologies, is a cost effective and necessary instrument in promoting access to, and use of, information in agriculture and allied sciences for public and private sectors alike."

That blue ribbon panel made numerous recommendations for upgrading and improving the services that NAL provides to the American public and the world. NAL has steadfastly striven to implement those recommendations since that report was issued.

NAL in 1992 has requested funding in the amount of $17,453,000, a net increase of $655,000 over the fiscal year 1991 appropriation.

The increase is to fund several important activities.

Two-hundred thousand dollars is being requested for an increase in NAL's networking activities.

We believe that NAL must remain in the forefront of new technologies and systems for networking. NAL networking activities give the United States access to agricultural information crucial to scientific research. For U.S. agriculture to remain competitive in today's world market and for the United States to continue vital agri-

cultural aid to developing countries, information services in support of agricultural research need to be a top priority.

Research and the development of a more efficient agricultural sector is what will keep the United States out ahead of other nations striving for a larger share of the world's market for agricultural goods. Increased agricultural production through research also will mean the United States can provide more food aid to countries in need. NAL is committed to giving fast, sophisticated and cost-effective access to information to the nation's agricultural scientists and researchers who will bring about these changes.

For example, NAL and the USDA's Agricultural Research Service are cooperating to develop a network system that will strengthen access, retrieval and delivery of information for ARS scientists and the agricultural scientific community as a whole. This network is built on the vast NAL collection, on information contained at agricultural research locations, and on materials at the libraries of land-grant universities.

While speaking of land-grant universities, let me point out that part of the requested increase would permit NAL to strengthen networking initiatives with land-grant university libraries. This includes building electronic linkages and systems for accessing, retrieving and delivering information; developing compact machine-readable materials to enhance user access to information; and electronically sharing information databases.

The additional networking funds would also aid NAL in preserving and miniaturizing agricultural library materials.

Preservation of materials is an area of great concern to all libraries. The acid contained in the paper of many old books and documents is literally turning them to dust. It is a problem approaching epidemic proportions within the international library community.

For several years NAL has been developing procedures for protecting the nation's agricultural collections from this fate. We want to share those procedures and learn of other preservation techniques. For these reasons, currently we are developing a network dealing with preservation information. This is being done through Joint ventures with other libraries and by investigating specialized preservation practices now in use and reporting on those practices through our network.

We also want to learn about and share the wealth of information being developed on miniaturizing agricultural collections. This miniaturization is being done through advanced electronic technologies like video discs and CD–ROMs and our own National Agricultural Text Digitizing Program. With the requested additional, funds, NAL will work with the agricultural library community to make this a reality.

In addition, NAL is requesting $276,000 to cover fiscal year 1992 pay costs. NAL is making efforts, and planning accordingly, to absorb the fiscal year 1990 full year and fiscal year 1991 annualized pay costs.

NAL is also requesting an increase of $604,000 to the present repair and maintenance program to cover the costs of major repairs and replacements in fiscal year 1992.

Inflation and rising costs over the last eight or nine years have severely affected our ability to meet our building maintenance needs. In many instances, NAL has had to redirect funds from library operations in order to pay for necessary maintenance and repairs. NAL has $296,000 available in its repair and maintenance program for these types of expenses.

Following the advice of USDA and Congress, NAL contracted for a complete facility study. The study, expected to be completed this summer, will recommend numerous corrections and changes to our facility, the two most serious of which are, in our estimation, the need for a new book lift and for an upgraded passenger elevator system.

The existing book lift, which was designed to transport materials between the 14 floors of the library, is no longer operating. It is 21 years old and has simply worn out. We are now forced to transport hundreds of books a day between floors using our passenger elevators. You can imagine what a strain that puts on our elevator system, which has problems of its own that I'll get to shortly.

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The book lift has reached a point where the continued costs for maintenance, operation and repair exceeds that of replacement. For example, specific parts need replacing but are no longer available. To get the book lift running again would require that these parts be custom made at tremendous costs and then there is no guarantee that other 21-year-old parts won't soon wear out. NAL estimates the cost to replace the entire system at $450,000.

The three passenger elevators in the library are also 21 years old and fraught with problems similar to those of the book lift. These elevators, in addition to serving now as our book lift, provide daily access to the floors of the library for approximately 350 NAL, USDA and contractor employees, as well as for library users. The safety and reliability of the system is steadily decreasing and continued replacement of various components is needed to keep it operating. At present, it is not uncommon to wait 5 to 7 minutes for an elevator.

Necessary improvements include new operating controls, new signal fixtures in order to be in compliance with codes for the handicapped, new door operating equipment . . . in general, a complete overhaul of the entire system. NAL estimates this project also will cost $450,000.

This concludes my remarks related to specific items in the NAL budget request.

I'd like to end by saying that throughout the history of our great nation, agriculture has played a prominent role. I think we are seeing, with current events like the GATT international trade talks, that agriculture will continue to have profound impact, not only in our future, but in the future of the world.

I also believe that the availability of information can have as much impact on agriculture as agriculture has on our lives. Without agriculture the nation would begin to die, and without information, U.S. agriculture would do likewise. We at the National Agricultural Library are proud of the small but significant part we play in assuring that the United States remains the world agricultural leader.

Thank you. I would be happy to respond to any questions you have.

National Agricultural Statistics Service

Statement of Charles E. Caudill, Administrator

Mr. Chairman and members of the Committee, it is an honor to appear before this distinguished Committee to present the National Agricultural Statistics Service's (NASS) fiscal year 1992 budget request. The Committee's continued recognition of the need for a strong agricultural statistics program and support are appreciated.

NASS administers USDA's program of collecting, compiling, and disseminating current national and State agricultural statistics. Research designed to improve the statistical methods and techniques used to produce agricultural statistics is also conducted. In addition NASS performs reimbursable survey work for other Federal, State, and producer organizations.

Statistical data developed by NASS on the Nation's agriculture are essential for the orderly development of production and marketing decisions by farmers, ranchers, and other agribusinesses. These agricultural data series are also used for monitoring the ever-changing agricultural sector and for making and carrying out agricultural policy relating to farm program legislation, commodity programs, agricultural research, agricultural chemical uses, rural development, and related activities.

FISCAL YEAR 1992 BUDGET REQUEST

The fiscal year 1992 budget request is $86,866,000. This request includes a total increase of $10,401,000: $2,500,000 to strengthen the food safety information system which was started in fiscal year 1991; $1,850,000 for improved sampling frames which is part of the Presidential Initiative to improve economic statistics; $1,000,000 to provide improved statistical coverage of specialty commodities;

$1,300,000 for conversion to FTS 2000; $1,000,000 for development of a restricted use pesticide data program; $315,000 for continuation of the report of cotton ginned; and $2,436,000 for pay costs.

MAJOR ACTIVITIES OF THE NATIONAL AGRICULTURAL STATISTICS SERVICE (NASS)

The primary activities of NASS are the collection, summarization, analysis, and publication of accurate and reliable agricultural forecasts and estimates. Thousands of farmers, ranchers, agribusinesses, and others voluntarily respond to nationwide surveys about crops, livestock, prices, and other agricultural activities. These surveys are supplemented by field observations, objective yield counts and measurements, and other administrative data to provide reliable information. Annually, estimates for about 120 crops and 45 livestock items are published in about 300 reports prepared by NASS's Agricultural Statistics Board (ASB).

The agricultural production and marketing data that are developed and published by NASS include: number of farms and land in farms; acreage, yield, and production of grains, hay, oilseeds, cotton, tobacco, some fruits and vegetables, floriculture, and other specialty crops; stocks of grains; inventories and production of hogs, cattle, sheep and wool, goats, catfish, trout, poultry, eggs, and dairy products; prices received by farmers; prices paid by farmers for inputs and services; cold storage supplies; agricultural labor and wage rates; agricultural chemical usage; and other data related to the agricultural economy.

The NASS agricultural statistics program is conducted through 45 State Statistical Offices (SSO's) servicing all 50 States. These SSO's are operated under cooperative funding arrangements with State Departments of Agriculture and/or Land-Grant universities. This arrangement efficiently serves the agricultural data needs at both the State and Federal levels and eliminates duplication of effort. Twenty-two of the NASS State offices are physically located in State office buildings. These beneficial collocations provide increased service and additional agricultural data for State and local needs while minimizing overall costs to the Federal Government.

A research program is conducted to improve the statistical methods and techniques used in developing agricultural statistics. This research is directed towards improved sampling, yield forecasting, and survey techniques. A remote sensing research program is continuing with the objective of increasing the accuracy of domestic crop acreage and land cover estimates.

NASS also conducts surveys and provides technical assistance on a reimbursable basis for other Federal, State, and private agencies or organizations. The existing statistical and survey capabilities can provide these services much more efficiently than having each agency conduct its own surveys. In addition, technical assistance in the development of agricultural statistics programs in foreign nations is also conducted on a reimbursable basis.

NASS periodically seeks input on data needs and priorities from data users through individual contacts, meetings with commodity groups, ASB briefings, other Departmental and Federal agency contacts, and regional data user meetings. The Agency has made many adjustments in its program in response to suggestions made by data users indicating that new data series or changes in current series are needed. Requests continue for expanded detail, wider geographic coverage, more frequent reports, new data series, and restoration of data series discontinued because of budget restrictions.

An estimating program for minor oilseeds is being developed to meet requirements for the 1990 Farm Bill. End-of-season estimates for canola, rapeseed, safflower, and mustard seed will be added to the agency's oilseed estimating program.

FISCAL YEAR 1992 PLANS

The budget request includes an increase of $2,500,000 for improved statistics on agricultural chemical use. A critical component of the President's Food Safety Initiative identifies the need for reliable statistics relating to chemical use for food crops. The additional funding will make it possible for NASS to provide pesticide usage data focusing on commodities that are targeted by the Agricultural Marketing Service as part of its Residue Testing Program. Surveys conducted on fruit and nut crops and vegetables will be done in alternating years. The increase will allow MASS to conduct a vegetable chemical use survey in all major producing States in 1992. This level of funding would also allow MASS to expand coverage to include all major fruit and nut producing States in 1993. NASS will coordinate data collection needs with the Environmental Protection Agency, Food and Drug Administration, National Oceanic and Atmospheric Administration, U.S. Geological Surveys, Tennessee Valley Authority, and others.

An increase of $1,850,000 is requested in response to the Presidential Economic Statistics Initiative. It will provide an improved sampling frame for agriculture in order to perform proper, efficient surveys. This initiative builds upon improvement funds received in the fiscal year 1991 budget. Funds will be used to expand the NASS farm list and for improvements to the NASS area frame in support of the U.S. Department of Commerce's 1992 Census of Agriculture and the U.S. Department of Agriculture's agricultural statistics program. Historically, mailing lists developed for the Census of Agriculture cover only about 85 percent of actual farms and include a large number of nonfarms. This results in undercoverage of smaller farms, double counting of others, and higher data collection costs. NASS has built a smaller list adequate for sampling that is more accurate but is still incomplete. Frame coverage would be made more comprehensive by acquiring additional administrative lists from USDA agencies and other sources, by having field enumerators active in targeted areas to locate operators not currently on the list, and by enhancing the NASS area frame to better measure the incompleteness of the list of farms. Frame coverage would be made more complete for commercial farms and for various types of farms that are considered to be most incomplete on the current list. Maintenance procedures would also be improved in order to eliminate nonfarms from the frame and reduce within-list duplication which can be a source of serious statistical bias. This work is also a critical prerequisite for the Department's food safety and water quality initiatives.

The budget request includes $1,000,000 for improved specialty commodity coverage. Additional statistical program coverage is needed by other USDA agencies, industry, and congressional interests as expressed by frequent information requests. Both at the national and State level, USDA has had difficulty answering data requests on specialty commodities. A recent example was the December 1990 freeze in California that severely damaged many of these commodities. Without an ongoing statistical base it is virtually impossible to estimate losses or to equitably administer a disaster relief program. NASS will add 25 additional fresh market and 3 additional processing vegetables for the most important States to the current estimating program. Tree and vine inventory surveys for fruits and tree nuts will be added in major production States on a 3- to 5-year rotational basis. Statistics on tree and vine numbers are not available for many States on a current, systematic basis. This is the first increment of a 4-year program planned to fully implement the comprehensive specialty commodity program coverage authorized in Title XXV, Section 2514, of the Food, Agriculture, Conservation, and Trade Act of 1990 (FACT Act).

An increase of $1,300,000 for conversion of data communications to FTS 2000 is requested. This is a one-time only implementation cost. The General Services Administration has mandated that Federal agencies convert their data communications to FTS 2000. NASS relies on high speed data communications between its offices and the main frame computers provided under a contract with Martin Marietta. This increase will allow NASS to acquire, through the FTS 2000 contract, the ability to use the Integrated Switch Digital Network, which is considered the most functional and economical network available. This method of integration has high up-front costs but is estimated to be more economical in the long run.

The budget request includes an increase of $1,000,000 for restricted use pesticide data. Section 1491 of the FACT Act requires all certified applicators of restricted use pesticides to maintain records of usage. This Section also requires that a survey of the applicators be conducted and that a published report of the results be made available to Congress by April 1 of each year. This increase will fund start-up costs for developing a program to collect chemical use data for commodities not currently covered by the Food Safety and Water Quality surveys. Restricted use pesticide data will need to be collected for livestock, seed treatments, forestry, and other certified categories. Nonagricultural pesticide use data will also have to be collected. NASS and EPA will begin work in compiling lists of applicators and in developing a survey program needed to satisfy this requirement. This is the first of two increments which are planned in order to properly survey all private and commercial applicators.

An increase of $315,000 for cotton ginnings is requested. The Report of Cotton Ginned is an important data source for forecasting cotton production during the harvest season and is the best source of final production totals, particularly of county level data. This survey has previously been conducted by the Census Bureau even though the Secretary of Agriculture is required by law to publish these data. NASS will collect the data on cotton ginned in time for publication with monthly Crop Production reports, beginning in October of each year. The Agency will also complete a final summary of county data at the end of the ginning season.

The budget request includes $2,436,000 to fund increased pay costs for fiscal year 1991 and fiscal year 1992. Fiscal year 1990 pay costs are totally absorbed in fiscal

year 1991. Continued absorption of pay and other inflationary costs has reached the point where reductions in critical parts of the base crop and livestock estimating program can no longer be avoided.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

PACKERS AND STOCKYARDS ADMINISTRATION

STATEMENT OF VIRGIL M. ROSENDALE, ADMINISTRATOR

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before the Subcommittee to discuss the programs of the Packers and Stockyards Administration (P&SA) and the Agency's budget request for fiscal year 1992. First, I would like to introduce two members of the staff who are accompanying me today, Calvin W. Watkins, the Deputy Administrator, and William A. Ashley, the Agency's Budget Officer.

You and other Members of the Subcommittee are familiar with the traditional programs of the Agency. As you are aware, the mission of the Packers and Stockyards Administration is to assure fair trade practices and competitive markets for livestock, meat, and poultry. The programs of the Agency are designed to foster fair and open competition, guard against deceptive and fraudulent practices, and provide payment protection in the marketing of livestock, meat, and poultry.

In addition to its responsibilities under the Packers and Stockyards Act (P&S Act), the Agency administers the Clear Title provisions contained in Section 1324 of the Food Security Act of 1985.

FISCAL YEAR 1992 BUDGET REQUEST

The total budget request of the Packers and Stockyards Administration for fiscal year 1992 is $11,359,000. Included is $11,231,000 for the administration of the Packers and Stockyards Act and $128,000 for Clear Title.

The request includes an increase over 1990 funding of $672,000 for pay costs. This funding will provide $81,000 for the annualization of the fiscal year 1991 pay raise and $591,000 for the fiscal year 1992 pay raise.

SCOPE OF OPERATIONS

The production and marketing of livestock, meat, and poultry are important to American agriculture and have a significant impact on the Nation's economy. In 1990, cash farm receipts of livestock and poultry were $63 billion, approximately 38 percent of total receipts. The wholesale value of red meat and poultry in 1990 has been estimated by the Department of Commerce to be approximately $88 billion.

At the close of fiscal year 1990, there were 1,618 posted stockyards; 9,605 registrants, including 7,181 market agencies/dealers and 2,424 packer buyers; approximately 6,500 slaughtering and processing packers; and an estimated 6,900 meat distributors, brokers, and dealers. Of the slaughtering packers, 574 were bonded. Those purchasing over $500,000 worth of livestock were also required to file annual reports with the Agency. There are an estimated 275 poultry firms subject to the P&S Act.

PROGRAMS UNDER THE P&S ACT

The Agency has two major program areas under the P&S Act: Livestock Marketing and Packer and Poultry. In these two major program areas, the Agency must maintain allocation flexibility so that it can respond to changing conditions. Fortunately, the P&S Act is written in a manner which has allowed the Agency to modify its programs and adapt to an ever-changing industry whenever necessary.

PAYMENT PROTECTION

Payment protection is always a major concern to livestock and poultry producers, and it is particularly important to the stability of the farm economy for them to receive full payment when due.

To address these concerns, the Agency continues to give special priority to the financial area. During fiscal year 1990, 5 auction markets failed financially owing $848,000 for livestock; $215,000 was subsequently recovered from bonds and other sources. Also, during the last fiscal year, 15 dealers/order buyers failed owing $4.1 million for livestock, of which $756,000 was recovered, leaving $3.4 million unpaid. As you can see, dealer failures represent a significant amount of unrecovered losses

in the livestock marketing chain. This is of considerable concern to us and we are currently reviewing what, if any, additional steps should be taken to improve this situation.

Producers must have assurances of prompt and full payment in the marketing of their products and a hope of a fair return in an open and competitive market place in order to make the long term commitment and investment necessary for raising livestock and poultry. Fiscal integrity in the marketing of these farm products is particularly important to the stability of the farm economy.

During fiscal year 1990, livestock producers were paid $4.7 million by 18 packers under the statutory trust provisions and over $392,000 from packer bonds. Livestock producers have received over $37.2 million under the trust provisions since the P&S Act was amended in 1976.

During fiscal year 1990, poultry producers were paid $360,000 by 3 poultry processors under the statutory trust provisions. Poultry producers have received over $447,000 under the trust provisions since the P&S Act was amended in 1987.

LIVESTOCK MARKETING

The primary responsibilities of the Livestock Marketing Division are to ensure prompt and full payment to livestock producers, prevent unfair trade practices, and foster open competition by stockyards, market agencies, and dealers. The bonding, solvency and custodial account requirements are given top priority to provide maximum payment assurance to livestock producers.

Because of increasing concern about the integrity of custodial funds, the Agency has implemented a review program to provide more frequent on-site audits of all custodial accounts. This program will help identify market agencies that are misusing custodial funds and those that cannot make up shortages in the account.

In addition to the payment protection responsibilities, the investigation of fraudulent practices is given a high priority in the livestock marketing program. Emphasis is given to investigation of false weighing, weight and price manipulation, switching of livestock, and misrepresentation of the source, origin, and health of livestock.

Competition in livestock marketing is also a matter of concern. Since competition for livestock should be open and free of restrictions, any practice, agreement, or understanding which excludes potential buyers from bidding in open competition is considered a restraint on competition. Examples of such practices include apportioning of territories, price agreements or arrangements not to compete, and payoffs or kickbacks to buyers. Information or complaints which indicate a possible restriction of competition are investigated on a priority basis.

The livestock marketing program is primarily responsible for the administration of Title III of the P&S Act. The administration of Title III of the P&S Act is currently the subject of a U.S. General Accounting Office (GAO) study requested by the House Agriculture Committee. We are working with GAO on this study, and look forward to its report. We are hopeful that the report will be beneficial as we review our own program to assure that we are both responsible and responsive to the practices and the changes that are currently taking place in the livestock marketing industry.

PACKER AND POULTRY

The primary responsibilities of the Packer and Poultry Division are to assure prompt and full payment to livestock and poultry producers; to foster open and free competition in the procurement of livestock by packers; and to prevent noncompetitive practices in the marketing of meat and meat products. High priority is given to assuring payment for livestock through bonding, solvency tests, and the packer trust which has helped reduce losses to producers selling livestock on a cash basis to slaughtering packers.

The poultry amendments to the Act give similar protection to poultry growers and producers through statutory trust and payment provisions.

The poultry program continues to take on added significance as evidenced by the payments to poultry producers in fiscal year 1990 as a result of the statutory trust. The Agency, however, will continue to encounter serious delays concerning trade practice violations because administrative procedures cannot be utilized, and enforcement proceedings must be handled through the Federal District Courts, a costly and time-consuming process.

MEAT MARKETING

Meat brokers, dealers and distributors continue to receive primary attention in the Agency's search for illegal inducements such as commercial bribery and illegal brokerage.

Payoffs to chainstore meat buyers eliminates competition based on price, quality and service. Feedback from injured suppliers continues to be the best source of illegal activity. P&SA maintains daily contact with industry members in order to obtain leads on illegal conduct. The Agency also works closely with the FBI, the IRS, and the Postal Inspection Service in this area.

Technical assistance to State and local authorities continues in the practice of bait-and-switch selling. In fiscal year 1990, a felony conviction by the State of Delaware of a repeat bait-and-switch offender resulted from cooperation between P&SA personnel and State officials.

MEAT PACKER CONCENTRATION AND CAPTIVE SUPPLIES

Meat packer concentration, feeding, and forward contracting continue to be a matter of concern, especially among livestock producers. Concentration accelerated during 1987 and has continued since that time. The top 10 slaughterers of steers and heifers during calendar year 1985 merged into 5 by the end of 1987. Acquisitions have also resulted in the merging of specialized poultry firms and traditional red meat firms. These developments, along with the moves on the part of meat packers to gain captive supplies through feeding and forward contracting, have prompted the Agency to review industry structure and market performance on a continuing basis.

The four largest firms slaughtered 70 percent of total commercial slaughter of steers and heifers in 1989. Boxed beef production by the top four firms was 79 percent of total production. In sheep and lambs, the four largest firms slaughtered 74 percent of the 1989 commercial slaughter. The four-firm concentration ratio for hog slaughter remained at 34 percent in 1989. The hog slaughter picture, however, is undergoing change at the present time, and an increase in this four-firm concentration ratio is expected as a result of expanded slaughter capacity.

Under the Hart-Scott-Rodino Act, firms, including meat packers, are required to submit premerger notification and information to the Department of Justice and the Federal Trade Commission. P&SA will continue to provide analyses, counsel, and information on industry structure, concentration, and other factors to the Department of Justice and the Federal Trade Commission concerning proposed mergers of meat packers. This year we have increased our efforts to further the communication and exchange of information with the Justice Department on the structure and performance of the meat packing industry. This is being done to coordinate our activities with that of the Justice Department as we continue to monitor the industry for illegal use of market power as a result of concentration in the industry.

The supply situation for both fed and feeder cattle, together with excess plant capacity, will likely continue to minimize any measurable negative effect of concentration and captive supplies in market performance and cattle prices in the foreseeable future. If and when livestock prices drop significantly, however, producers may more seriously focus on the concentration and captive supply issues. At the present time, there is a lack of consensus among livestock producers with respect to the need or advisability for any government involvement to alter the present concentration and integration trends. A recent GAO study on meat packer concentration concluded that empirical studies of market concentration in the beef packing industry did not lead them to draw any overall conclusions regarding the impact that market concentration had on prices packers paid for steers and heifers in the 1980's. Industry analysts and experts interviewed during the study said that recent packer concentration had not lowered steer and heifer prices in the 1980's. Nevertheless, future changes in market and industry conditions could result in beef packers enhancing their market power.

The subject of meat packer concentration will likely be dealt with again in the current GAO study as will the current role of this Agency in dealing with packer concentration. We look forward to the GAO report as we continually review our role in this important area.

FURTHER PROCESSING OF RED MEAT AND POULTRY

The meat processing industry continues to develop and expand beyond the fabrication of red meat into wholesale cuts. Areas of significant expansion include fabricating red meat and poultry into individual portions; manufacturing specialty and convenience items; preparing partially-to-fully cooked and ready-to-serve products;

and developing packer branded retail cuts. These developments have far-reaching implications for producers, consumers, and agribusiness firms in the industry. The Agency will continue to stay alert to such changes and modify its programs and priorities accordingly.

Boxed beef production accounted for 22 million carcass equivalents in 1989, 81 percent of the 27 million steers and heifers slaughtered that year.

SCALES AND WEIGHING

The major emphasis of the Agency's scales and weighing program continues to be directed to weighing investigations. Economic and competitive pressures on individuals and firms engaged in livestock marketing contribute to falsifying weights as a way to improve income. During fiscal year 1990, 14 percent of the Agency's 589 formal weighing investigations disclosed false or questionable weighing. The percentage of these cases has remained relatively constant for the past few years.

In addition to conducting weighing investigations, the Agency actively participates with the National Conference on Weights and Measures and the National Institute of Standards and Technology in the development of standards, specifications, and tolerances for livestock and carcass scales.

The Agency also develops training programs and provides instruction to State weights and measures officials, private scale testing companies, and scale users. During fiscal year 1990, the Agency's 17 formal scale testing workshops provided training for over 250 weights and measures and industry personnel.

CLEAR TITLE

As of January 31, 1991, seventeen States had received certification of their central filing systems under Section 1324 of the Food Security Act of 1985.

The Agency is continuing to review its procedures for carrying out its responsibilities for certification of central filing systems to determine if it should be providing additional assistance to States operating the systems or if there should be some review of pr .ously certified systems.

AGENCYWIDE INFORMATION MANAGEMENT SYSTEMS (AIMS)

The Agency is making Great progress in implementing its automated information management system in fiscal year 1991. An information resource management coordinator has been hired and the Agency is procuring computers and software and providing training to improve productivity and significantly strengthen the Agency's capability to monitor and analyze changes in the livestock, meat and poultry industries.

The Agency will expand database applications for registration and bonding of those subject to the Packers and Stockyards Act. In addition, the Agency will more adequately monitor the financial condition and debt-paying ability of livestock dealers, market agencies, and meat packers; improve office efficiency; and conduct additional economic analyses of the effects of changes occurring in the industries subject to P&SA regulation.

Attention to automation needs will continue in fiscal year 1992 and beyond as we strive to keep pace with the industry we regulate.

We must become more efficient and increase productivity if we are to continue to meet increased responsibilities at lowest cost. The technology and techniques are available, and an investment now will provide dividends in the future.

Mr. Chairman, the Agency's budget request for fiscal year 1992 is $11,359,000. We appreciate the opportunity to present this statement and welcome the opportunity to respond to any questions you and other members of the Subcommittee may wish to ask.

OFFICE OF PUBLIC AFFAIRS

STATEMENT BY KELLY M. SHIPP, DIRECTOR OF PUBLIC AFFAIRS AND PRESS SECRETARY

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you to discuss the fiscal year 1992 request for the Department of Agriculture's Office of Public Affairs.

The Office of Public Affairs, indeed the entire Department of Agriculture, is committed to ensuring the productivity, profitability, marketability and stability of America's farms and farmers. We play a pivotal role in generating and disseminat-

ing information critical to achieving these ambitious goals. Through our relationships with farm communities, the general public, media and government at the Federal, State and local levels, the Office of Public Affairs fosters public awareness of the nation's agricultural programs and policies.

Congress and the Administration have assured the continued productivity of American agriculture through the passage of the Food, Agriculture, Conservation, and Trade Act of 1990, FACT. While the implementation of the policies contained in the Act are left, primarily, to USDA agencies and State and local governments, the Office of Public Affairs, OPA, has a crucial role in serving these agencies as they proceed with that task.

By providing information production and dissemination facilities to the agencies, OPA shares the responsibility for educating the public about the provisions of this new legislation. Informing the public allows USDA to serve better those who form the foundation of agriculture: America's farmers. Equal access to farm programs can be ensured only through equal and comprehensive access to the information necessary to take advantage of these programs. The continued productivity of America's farms depend on this information, which the Office of Public Affairs provides.

The marketability of U.S. farm products is critical to the continued success of American agriculture. We in America enjoy the world's safest and most wholesome food supply. Educating the consumer about the safety and nutritional benefits of our country's farm products is a task that falls, in part, to the Office of Public Affairs. OPA's relations with the press and media allow the Department to distribute market news quickly and accurately and to correct misinformation that adversely affects the marketability of farm products. Other OPA services, like USDA's daily radio Newsline service, allow USDA consumer information to be communicated quickly through media outlets to the general public.

Through relationships forged with farm groups, the National Governor's Association, Indian Tribes and State Food and Agriculture Councils, the Office of Public Affairs continues its work to ensure continued stability in the agricultural economy. Agricultural conservation and rural development, keys to agricultural stability, are joint responsibilities borne by these groups and Federal, State and local governments.

The Office of Public Affairs provides a forum for the free flow of information between USDA and all its constituents, further ensuring policies that reflect our constituents' needs for stability in the American farm sector.

FISCAL YEAR 1992 BUDGET REQUEST

In order to continue this cooperation and to serve better the information needs of the agricultural community, the Office of Public Affairs is requesting $9.599 million for fiscal year 1992. This represents an increase of $717,000 over our fiscal year 1991 appropriation. Of these additional funds, $511,000 will be used to cover increased pay costs and $206,000 are targeted for expanded program delivery.

OPA plans to increase transmission of video information via satellite to farm broadcast stations throughout the nation. Market research indicates that over half of all farmers with incomes under $100,000 rely on television to gather important information quickly. This service will put more valuable information into the hands of the farmer who most needs it. This service will require additional funding of $50,000.

Expansion of the AgNewsFAX service, which allows the Office of Press and Media Relations to disseminate quickly and efficiently breaking agricultural news, press releases, remarks and other news-related information to media outlets, is a high priority. We hope to expand this service, now providing FAX-on-demand and FAX broadcast service to the media, to a wider audience including farm groups, Congress, and State and local governments. We intend to begin work on a Departmental institutional information inventory system during fiscal year 1992. This system will catalog USDA publications, subject matter specialists and other information resources. It will pinpoint for its users both within and outside of USDA what to read, where to find it and who to see regarding the spectrum of agricultural programs, policies and activities. These services will require a one-time increase of $118,000.

Finally, the FACT expands rural development programs and stresses cooperation and coordination with the States in the areas of sustainable agriculture and the environment. This will require greater Federal and State cooperation and communication which the State Food and Agriculture Councils. FACs can render through their network of councils. As the primary liaison between USDA and the FACs, OPA expects to incur an additional expense of $38,000 to support increased interaction with the FACs.

This concludes my statement, Mr. Chairman. I will be pleased to respond to any questions.

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF JAMES R. DONALD, CHAIRPERSON

Mr. Chairman and Members of the Committee, it is my pleasure to appear before you today to discuss the fiscal year 1992 budget request of the World Agricultural Outlook Board.

OVERVIEW

The World Agricultural Outlook Board (WAOB) plays a critical role in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system responds to today's rapidly changing world agricultural sectors. The purpose of the WAOB is twofold: to provide the most accurate, objective, and timely economic intelligence on worldwide developments which influence U.S. agriculture; and to speed the flow of that information to producers, consumers, policymakers and the general public.

WAOB's main function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB maintains liaison with international organizations, such as the World Meteorological Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and weather-based impact assessments; these monitoring and analytical activities within USDA are coordinated by the WAOB Chairperson. Remote sensing activities in USDA also are coordinated by the WAOB Chairperson. Weather assessments and remote sensing activities are directed at improving the accuracy and timeliness of crop estimates.

SPECIFIC FUNCTIONS AND PROGRESS

WAOB chairs the Interagency Commodity Estimates Committees (ICEC's) and seeks to assure that information from both domestic and international sources are fully integrated into the analytical process. The ICEC's are composed of representatives from the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service (AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization, and prices for the major agricultural commodities. It is through these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance are ongoing responsibilities of each committee.

Weather, as much as any economic or policy development, continues to be a significant variable underlying agricultural production and prices. Consequently, USDA places a high priority on incorporating weather-based assessment information into all analyses. The focal point for this activity is the Joint Agricultural Weather Facility (JAWF), operated jointly by the WAOB and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, continually monitors and assesses global weather events and their probable impact on agricultural output. JAWF briefings, reports and special alerts are key inputs to the development of USDA crop yield estimates.

The Weekly Weather and Crop Bulletin and electronic networks are the principal means used by JAWF to disseminate meteorological assessments to the public. JAWF's early warning capability diminishes the likelihood that USDA policymakers, farmers and other participants in the agricultural system will be caught unaware of a foreign crop failure or some other significant global weather-related event. The Weekly Weather and Crop Bulletin is widely recognized as a prime source of reliable domestic and international crop and weather information.

The World Agricultural Supply and Demand Estimates (WASDE) report is published by WAOB. WASDE is a monthly report which is released on the same day as the U.S. Crop Production report. WAOB has tailored this report to respond to user needs for global crops and domestic livestock situation and outlook information on a timely basis. WASDE presents aggregated global supply and demand data for all major agricultural commodities as well as detailed production, trade, utilization

and stocks forecasts for the United States and for principal U.S. competitors and foreign importers.

WAOB recognizes the need for rapid information dissemination. Increasingly, improved technologies are being used to speed the flow of information. The principal objective is to place the World Agricultural Supply and Demand Estimates report into the hands of farmers and other users as quickly and effectively as possible. WASDE is transmitted electronically upon release at 3 p.m. to a central USDA system that can forward it to all interested users, greatly broadening the potential for report dissemination. Also, the report summary is sent electronically to our embassies and trade offices around the world to keep U.S. agricultural attaches, counselors, and trade representatives current with the very latest information on U.S. supplies and prices.

The Agricultural Statistics Board (ASB) of the National Agricultural Statistics Service (NASS) and the WAOB are co-located in a single lockup facility to maximize security conditions for analysis, compilation and release of world crop data and supply/demand estimates. This physical arrangement with the ASB facilitates interaction between domestic and international analysts.

RECENT ACTIVITIES

WAOB continued to publish the monthly World Agricultural Supply and Demand Estimates report which presents estimates of global supply and use for grains, oilseeds and cotton and U.S. supply and use estimates for red meat, poultry, eggs and milk.

WAOB initiated a program to evaluate the Department's short-term intermediate, and long-term commodity forecasts. A trial historical data set of preliminary and final estimates was compiled and used to calculate statistical measures of forecast reliability. This effort established the prototype for an on-going forecast evaluation program.

With WAOB's guidance, the Economic Research Service and the Foreign Agricultural Service, for the first time, published reliability statistics for U.S. agricultural export forecasts in the August 1990 issue of the Outlook for U.S. Agricultural Exports. At the same time, similar statistics were published for export volume and import value.

The Joint Agricultural Weather Facility (JAWF), operated by the WAOB and the National Oceanic and Atmospheric Administration, continued to jointly publish with NASS the Weekly Weather and Crop Bulletin (WWCB). The WWCB summarizes global weather developments and assesses the potential impact of these events on agricultural production.

WAOB monitored current weather conditions at home and abroad to provide USDA with early warnings concerning potential impacts on crop yields. For example, JAWF meteorologists reported on unfavorably dry conditions in the fall of 1989 for germination and establishment of hard red winter wheat in the Great Plains. In November 1989, JAWF accurately predicted a major record-setting cold wave in December. However, based on an analysis of specially acquired soil temperature data, JAWF agricultural meteorologists correctly deduced that the wheat crop was, for the most part, not seriously damaged by the freeze episode, a conclusion that was counter to many private sector assessments at the time.

JAWF meteorologists provided early warning of the December 1989 freeze episodes which severely damaged the citrus and vegetable crops in Texas and Florida. As a result, the National Agricultural statistics Service acted prior to the onset of the freeze to prepare for the extensive field surveys and reports that would be needed to assess potential damage. JAWF's forecasts of likely freeze dates, duration, and severity proved quite accurate.

With respect to weather events affecting foreign agriculture, notable developments were monitored in Europe, the Soviet Union and Argentina. In Europe, drought conditions from France across the Mediterranean Basin to the southeast (Yugoslavia, Hungary, Romania, and Bulgaria) reduced corn output. In contrast, unusually mild winter weather and favorable moisture boosted Soviet winter grain yields to record levels. While early-season dryness in the Soviet New Lands raised concern for spring grains, timely rain resulted in above average yields. In Argentina, heat and dryness in corn growing areas and excessive rainfall in cotton areas hampered crop recovery from the previous year's extreme drought.

The Department's Interagency Agricultural Projections Committee (IAPC), under leadership of WAOB, continued a concerted effort to improve USDA's longer-term commodity estimates. These projections underlie the President's budget and serve as a base for analyzing farm program alternatives. The IAPC provided sound and consistent economic and program assumptions to all Interagency Commodity Esti-

mates Committees prior to the development of commodity projections for the President's budget and the mid-session update.

WAOB provided USDA's perspective to an intergovernmental working group assessing the value of Landsat data to the U.S. Global Change Research Program. The working group, an ad hoc task force of the Committee on Earth and Environmental Sciences which reports to the President's Science Advisor, was assigned the study at the request of Congress. Recognition that Landsat data is important to Global Change Research provides support for continuing the U.S. civil remote sensing program.

WAOB prepared USDA's contribution to the annual Aeronautics and Space Report of the President. The report notes that the Department's remote sensing activities are focused on three areas: 1) plant growth in controlled environments, 2) monitoring large areas of the Earth's surface, and 3) interpreting and using data obtained from satellites.

The Board assisted the Department in responding to mounting demands for global change research. WAOB's Chief Meteorologist participated in developing a new Presidential initiative on global climate change and advised several international scientific bodies regarding prospective global climate change research projects.

WAOB continued to coordinate USDA's participation in Commodity Futures Trading Commission's (CFTC) weekly closed market surveillance briefings. USDA and the Commodity Futures Trading Commission shared market information as part of an on-going futures price monitoring activity.

WAOB coordinated and directed USDA's 67th Annual Outlook Conference, "Agriculture in a World of Change" (November 27–29, 1989.) The nationally televised conference featured 25 topical sessions and prominent speakers from the public and private sectors; it attracted an on-site audience of 900, including a large press contingent.

BUDGET REQUEST

Our total budget request for fiscal year 1991 is $2,520,000. This represents an increase of $324,000 from the fiscal year 1991 level of $2,196.000. This increase consists of $60,000 for a quality control program for USDA economic forecasts, $40,000 for expansion of USDA's Global Agronomic Data Base, $53,000 to improve ADP systems and enhance commodity analysis, $26,000 for a workers compensation claim, and an increase of $145,000 for pay costs.

Funding is needed for a quality control program for USDA economic forecasts. This program will provide staff and funding to quantify the reliability of USDA forecasts, test the hypothesis that forecasts have improved in accuracy and develop recommendations for improved methodologies and procedures.

Funds are needed to expand USDA's Global Agronomic Data Base. The deficiencies in the Department's data base prohibits forecasters from processing more detailed geographic information. The additional resources will be used to update, expand, and refine the agronomic and weather information available to crop analysts.

Funding is requested to provide WAOB analysts and USDA policy officials with improved analytical tools and to expedite the internal distribution of wire service reports. Technologically obsolete and unreliable personal computers, disk drives, monitors, and printers will be replaced. Networking and electronic communications capabilities will be developed to expedite the flow of current information to end-users and curtail hard copy reproduction and distribution costs.

Discretionary funding has been diverted from programs because of cost increases absorbed in the past. To avoid redirecting funds from existing programs, funding is requested for a workers compensation claim and for fiscal year 1991 and fiscal year 1992 pay costs.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning WAOB programs and budget request.

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